S. HRG. 99-242

1985 MISCELLANEOUS TAX BILLS—I

HEARING

BEFORE THE

SUBCOMMITTEE ON
TAXATION AND DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 203 and S. 205

June 24, 1985

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1985 MISCELLANEOUS TAX BILLS

MONDAY, JUNE 24, 1985

U.S. SENATE,
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT,
COMMITTEE ON FINANCE,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m. in room SD-215, Dirksen Senate Office Building, the Honorable John H. Chafee (chairman) presiding.

Present: Senators Chafee and Moynihan.

[The press release announcing the hearing, a description of S. 203 and S. 205 by the Joint Committee on Taxation the text of S. 203 and S. 205 and a statement from Senator Kerry follows:]

[Press release—June 5, 1985]

HEARING ON MISCELLANEOUS TAX BILLS SCHEDULED FOR JUNE 24

Senator Bob Packwood (R-Oregon), Chairman of the Senate Committee on Finance, today announced that the Subcommittee on Taxation and Debt Management will hold a hearing on two miscellaneous tax bills.

Chairman Packwood said that the Taxation Subcommittee's hearing is scheduled to begin at 9:30 a.m., Monday, June 24, 1985, in Room SD-215 of the Dirksen Senate Office Building.

The Chairman also stated that Senator John Chafee (R-Rhode Island), Chairman of the Subcommittee on Taxation and Debt Management, would preside at the June 24 hearing.

The hearing will review S. 203, a bill which would provide a onetime amnesty from criminal and civil tax penalties, as well as 50% of any interest penalty, for taxpayers who pay previous Federal tax underpayments during the amnesty period; and on S. 205, a bill which would create a mechanism for taxpayers to designate $1 of any Federal tax overpayment for payment to the National Organ Transplant Trust Fund.

S. 203 was introduced by Senator Alan Dixon (D-Illinois) and S. 205 was introduced by Senator Dale Bumpers (D-Arkansas).

DESCRIPTION OF S. 203 (RELATING TO TAX AMNESTY) AND S. 205 (RELATING TO DESIGNATION OF CONTRIBUTIONS ON TAX RETURN FOR THE NATIONAL ORGAN TRANSPLANT TRUST FUND)

SCHEDULED FOR A HEARING

BEFORE THE

SUBCOMMITTEE ON
TAXATION AND DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE

ON JUNE 24, 1985

PREPARED BY THE STAFF

OF THE

JOINT COMMITTEE ON TAXATION

INTRODUCTION

The Senate Finance Subcommittee on Taxation and Debt Management has scheduled a public hearing on June 24, 1985, on S. 203 (relating to tax amnesty) and S. 205 (relating to designation of contributions on tax returns for a proposed National Organ Transplant Trust Fund).

The first part of the pamphlet [1] is a summary. The second part is a description of the bills, including present law, explanation of provisions, and effective dates.

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[1] This pamphlet may be cited as follows: Joint Committee on Taxation, *Description of S. 203 (Relating to Tax Amnesty) and S. 205 (Relating to Designation of Contributions on Tax Return for the National Organ Transplant Trust Fund)* (JCS-22-85), June 21, 1985.

I. SUMMARY

S. 203

S. 203 (Senator Dixon) would provide a six-month period during which taxpayers who voluntarily disclosed underpayments or nonpayments of taxes and who paid those taxes plus one-half of the interest otherwise due on those taxes would receive amnesty from all civil and criminal penalties (as well as the remaining one-half of the interest). In addition, the bill would increase by 50 percent the civil and criminal penalties in the Code. The bill also authorizes the employment of 3,000 additional IRS agents.

S. 205

S. 205 (Senator Bumpers) would provide that taxpayers could designate on their tax returns all or a portion of their tax refunds (or make contributions with their returns) to a new trust fund that would defray the cost of necessary organ transplants. The provision would be effective for taxable years ending after the date of enactment.

II. DESCRIPTION OF THE BILLS

1. S. 203 (Senator Dixon)

Tax Amnesty

("Federal Tax Delinquency Amnesty Act of 1985")

Present Law

The Federal Government has never instituted a program that provided amnesty from both civil and criminal penalties for taxpayers who both voluntarily disclosed that they had underpaid their taxes and then paid those amounts. The Code includes civil and criminal penalties that may apply to failure to file returns on a timely basis or to pay taxes due. The Code also requires that interest be paid on any underpayment of tax.

The Internal Revenue Service (IRS) had an administrative policy, discontinued in 1952,[2] that in effect provided amnesty from criminal prosecution (but not from civil penalties or interest) for taxpayers who voluntarily disclosed that they had underpaid their taxes. In 1961, the IRS issued a news release suggesting to taxpayers that, since the IRS was then installing new data processing equipment, it might be a propitious time for taxpayers to disclose voluntarily any underpayments of tax. The news release also noted that the likelihood of criminal prosecution was not high in instances of voluntary disclosure, although the news release offered no assurances that amnesty from criminal prosecution would be granted. A current policy statement of the IRS includes voluntary disclosure of tax underpayments as one criterion to be considered in determining whether a case warrants criminal prosecution.

A number of States have recently instituted tax amnesty programs.[3] These programs differed widely as to the types of taxes included, whether criminal penalties only or civil penalties as well were waived, whether interest was required to be paid, and whether increased penalties and other compliance measures were instituted following the amnesty period.

Explanation of Provisions

Generally

The bill would provide a one-time amnesty from civil and criminal penalties, as well as from 50 percent of the interest owed, for

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[2] It appears that this policy was officially terminated because of failure to pay the taxes once amnesty had been granted, increased litigation, and lack of uniformity in administering the program.

[3] These States are: Alabama, Arizona, California, Idaho, Illinois (two programs), Kansas, Massachusetts, Minnesota, Missouri, North Dakota, Oklahoma, and Texas.

taxpayers[4] who voluntarily disclose any underpayment of tax and who pay the tax and the remaining 50 percent of the interest.

Taxes included

The amnesty would apply to any tax imposed under the Internal Revenue Code. The amnesty would not apply, however, to underpayments of tax attributable to income from illegal sources.

Taxpayers eligible

In general, any taxpayer would be eligible to participate, so long as the taxpayer follows the specified procedures and pays the tax and one-half the interest due.

A taxpayer would not be eligible to participate, however, with respect to a specific taxable period to the extent that the taxpayer has been notified that the IRS is questioning the taxpayer's liability for that period.[5] In addition, a taxpayer would not be eligible to participate with respect to any understatement of tax to the extent that IRS has already begun normal procedures to obtain payment of those taxes. Also, a taxpayer would not be eligible to participate if any representation made by the taxpayer in connection with amnesty is false or fraudulent[6] or if, prior to the date the taxpayer filed the required statement, a referral was made from the IRS to the Justice Department recommending grand jury investigation or criminal prosecution of the taxpayer.

Requirements

The taxpayer would be required to file a written statement with the IRS. The statement must list the taxpayer's name, address, and taxpayer identification number (for individuals, the social security number). The taxpayer must specify the amount of the admitted underpayment for the taxable period, and must include whatever additional information the IRS requires to determine the correct amount of underpayment. The taxpayer must agree to a waiver of any restriction (such as the statute of limitations) on the assessment or collection of the underpayment.

The taxpayer would be required to pay the amount of the admitted understatement of tax when the taxpayer files this statement.[7] In addition, the taxpayer must pay the interest due within 30 days of being notified by the IRS of the amount of interest due.[8]

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[4] Amnesty would be available to any entity liable for any tax imposed under the Code, including (but not limited to) individuals, corporations, estates, trusts, and tax-exempt organizations.

[5] The bill would provide that notice to certain related parties would qualify as notice to the taxpayer under this provision.

[6] Consequently, if a taxpayer followed the specified procedures and paid both the tax and one-half the interest as required, but it was later discovered that the taxpayer made false statements on the amnesty form, the amnesty would in effect be revoked with respect to this taxpayer.

[7] If the taxpayer disputes the IRS' determination of the amount of the underpayment, the taxpayer must nonetheless pay that amount to participate in the amnesty. The bill provides that these disputes would proceed through normal administrative and judicial procedures. If at the conclusion of these procedures the taxpayer is due a refund, the bill provides that the refund would include interest at the 6-month Treasury bill rate in effect as of the date the dispute is resolved.

[8] Taxpayers must pay one-half the interest otherwise due. This in effect means that interest is computed at a rate one-half the otherwise applicable rate. One-half the applicable rate would vary from 3 to 10 percent, depending on the specific years with respect to which the underpayment was outstanding.

The bill would authorize to be appropriated such sums as are necessary to administer the amnesty program. The bill contemplates that special efforts, including direct-mail contacts and radio, television, and print advertising, would be made by the IRS to publicize the amnesty program.

Installment payments

The bill provides that taxpayers may request the privilege of paying in installments, rather than paying the entire tax when filing the written statement. The IRS would determine whether it is appropriate to permit the taxpayer to pay in installments.

If the IRS determines that it is appropriate, the IRS and the taxpayer would be required to enter into an agreement specifying the installment payments within 30 days of the date the IRS notifies the taxpayer that the IRS will consider permitting installment payments. If the IRS determines that it is not appropriate to permit the taxpayer to pay in installments, the IRS must so notify the taxpayer. The taxpayer then would be required to pay the tax within 30 days.

Penalties

The bill would increase the civil and criminal penalties in the Code by 50 percent.

Additional IRS agents

The bill would authorize to be appropriated such sums as are necessary to employ 3,000 additional IRS agents.

Effective Dates

The amnesty would be effective for the six-month period beginning on July 1, 1985, or on the first July 1 after the date of enactment. The amnesty would be available only for underpayments for taxable years ending before January 1, 1984.

The 50-percent increase in civil and criminal penalties would apply to taxable years beginning after December 31, 1983. In addition, the increase would apply to any underpayment relating to previous taxable years outstanding at the conclusion of the amnesty period.[9]

[9] This provision would not apply to underpayments with respect to which judgment was entered before the date of enactment.

2. S. 205 (Senator Bumpers)

Designation of Contributions on Tax Return for the Organ Transplant Trust Fund

("Organ Transplant Contributions Act of 1985")

Present Law

Under present law, individual taxpayers may elect to allocate $1 ($2 on a joint return) of their tax liability to the Presidential Election Campaign Fund, a fund established to provide financing to the campaigns of presidential and vice-presidential candidates. The allocation is made on the first page of the taxpayer's return. An allocation to the fund neither increases nor decreases the taxpayer's liability, but merely determines whether or not the allocated amount will be used by the government for campaign funding.

No other provisions of the tax law permit taxpayers to designate for what purpose the amount of tax owed must be used by the government. No provision of present law permits taxpayers to make contributions for charitable or other purposes through their Federal income tax return. However, the Commissioner of Internal Revenue in the instructions to Form 1040 has encouraged taxpayers to include with their tax return voluntary contributions to reduce the public debt. Taxpayers wishing to do so must enclose a separate check payable to the Bureau of Public Debt.

Explanation of Provisions

Designation of amounts for Organ Transplant Trust Fund

Under the bill, taxpayers entitled to an income tax refund could designate all or any portion of the refund as a contribution to the National Organ Transplant Trust Fund, a trust fund to be established by the bill within the United States Treasury. The bill would require that the designation appear on the first page of the return. Taxpayers not entitled to a refund, or who wished to make a contribution to the Fund in excess of their refund, could include an additional amount with their return and designate this as a contribution to the Fund. The designation would not increase or decrease the tax liability of a taxpayer for the year covered by the return.

Disposition of amounts in Trust Fund

Amounts in the National Organ Transplant Trust Fund would be used by the Security of Health and Human Services to carry out the purposes of section 5 of the National Organ Transplant Contributions Act of 1984. Specifically, the funds would be used to defray the cost of qualified organ transplant procedures incurred by individuals with a life-threatening medical condition for which a trans-

plant is medically necessary, who lack the financial resources to pay for such procedures. Expenses incurred by the Treasury Department in administering the program also would be payable out of the Fund.

Specific rules and procedures relating to the medical and financial eligibility of individuals for benefits under the program, which transplant procedures would be eligible for payments from the Fund, the maximum amounts payable for each procedure, certification of health care facilities as potential recipients of Trust Fund monies, and other relevant determinations, would be prescribed by regulations issued by the Secretary of Health and Human Services.

Effective Date

The provision would be effective for returns filed for taxable years ending after the date of enactment.

99TH CONGRESS
1ST SESSION

S. 203

To provide a one-time amnesty from criminal and civil tax penalties and 50 percent of the interest penalty owed for certain taxpayers who pay previous underpayments of Federal tax during the amnesty period, to amend the Internal Revenue Code of 1954 to increase by 50 percent all criminal and civil tax penalties, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 21, 1985

Mr. DIXON introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To provide a one-time amnesty from criminal and civil tax penalties and 50 percent of the interest penalty owed for certain taxpayers who pay previous underpayments of Federal tax during the amnesty period, to amend the Internal Revenue Code of 1954 to increase by 50 percent all criminal and civil tax penalties, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Federal Tax Delinquency Amnesty Act of 1985".

SEC. 2. WAIVER OF CRIMINAL AND CIVIL PENALTIES AND 50 PERCENT OF INTEREST PENALTY.

(a) GENERAL RULE.—In the case of any underpayment of Federal tax for any taxable period, the taxpayer shall not be liable for any criminal or civil penalty (or addition to tax) or 50 percent of any interest penalty provided by the Internal Revenue Code of 1954 with respect to such underpayment if—

(1) during the amnesty period—

(A) the taxpayer files a written statement with the Secretary which sets forth—

(i) the name, address, and taxpayer identification number of the taxpayer,

(ii) the amount of the underpayment for the taxable period, and

(iii) such information as the Secretary may require for purposes of determining the correct amount of the underpayment for the taxable period, and

(B) the taxpayer agrees to a waiver of any restriction on the assessment or collection of such underpayment,

(2) when filing the statement described in paragraph (1), the taxpayer pays the amount of the underpayment shown on such statement, and

(3) not later than 30 days after the date on which the taxpayer is notified by the Secretary of the amount which equals 50 percent of the interest payable with respect to the underpayment (and the amount of any tax delinquent amount with respect to the taxpayer), the taxpayer pays the full amount of such interest (and such tax delinquent amount).

(b) INSTALLMENT PAYMENT OF TAX PERMITTED IN CERTAIN CASES.—The requirements of paragraphs (2) and (3) of subsection (a) shall be treated as met if—

(1) the taxpayer in the statement filed under subsection (a)(1) requests the privilege of making installment payments under this subsection, and

(2) the taxpayer enters into an agreement with the Secretary for the payment (in installments) of the amounts required to be paid under paragraphs (2) and (3) of subsection (a) within 30 days after contacted by the Secretary for purposes of entering into such an agreement (or in any case where the Secretary determines that permitting the payment in installments of such amounts is not appropriate, the taxpayer pays the entire amount of such amounts within 30 days after notified by the Secretary of such determination).

(c) AMOUNT OF UNDERPAYMENT DISPUTED.—If the amount under paragraph (3) of subsection (a) is disputed by

the taxpayer, such amount must be paid within the period described in subsection (a). If the taxpayer is entitled to a refund as a result of the resolution of the dispute through normal administrative and judicial procedures, the Secretary shall refund the amount plus interest at the 6-month Treasury bill rate in effect as of the date the dispute is resolved.

(d) AMNESTY NOT TO APPLY IN CERTAIN CASES.—

(1) WHERE TAXPAYER CONTACTED BEFORE STATEMENT FILED.—Subsection (a) shall not apply to any underpayment of Federal tax for any taxable period to the extent that before the statement is filed under subsection (a)(1)—

(A) such underpayment was assessed,

(B) a notice of deficiency with respect to such underpayment was mailed under section 6212 of the Internal Revenue Code of 1954, or

(C) the taxpayer was informed by the Secretary that the Secretary has questions about the taxpayer's tax liability for the taxable period.

(2) WHERE FRAUD IN SEEKING AMNESTY OR WHERE CRIMINAL INVESTIGATION PENDING.—Subsection (a) shall not apply to any taxpayer if—

(A) any representation made by such taxpayer under this section is false or fraudulent in any material respect, or

(B) a Justice Department referral (within the meaning of section 7602(c)(2) of the Internal Revenue Code of 1954) is in effect with respect to such taxpayer as of the time the statement is filed under subsection (a)(1).

(3) ILLEGAL SOURCE INCOME.—Subsection (a) shall not apply to any underpayment of Federal tax with respect to income resulting from a criminal offense under Federal, State, or local law.

(e) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

(1) AMNESTY PERIOD.—The term "amnesty period" means the 6-month period which begins on July 1, 1985, or on the first July 1 after the date of the enactment of this Act.

(2) FEDERAL TAX.—The term "Federal tax" means any tax imposed by the Internal Revenue Code of 1954.

(3) TAXABLE PERIOD.—

(A) IN GENERAL.—The term "taxable period" means—

(i) in the case of a tax imposed by subtitle A of the Internal Revenue Code of 1954, the taxable year, or

(ii) in the case of any other tax, the period in respect of which such tax is imposed.

(B) SPECIAL RULE FOR TAXES WITH NO TAXABLE PERIOD.—In the case of any tax in respect of which there is no taxable period, any reference in this section to a taxable period shall be treated as a reference to the taxable event.

(4) ADDITION TO TAX INCLUDES ADDITIONAL AMOUNT.—The term "addition to tax" includes any additional amount.

(5) SECRETARY.—The term "Secretary" means the Secretary of the Treasury or his delegate.

(6) FORM OF STATEMENT.—Any statement under subsection (a)(1) shall be filed in such manner and form as the Secretary shall prescribe.

(7) NOTICE TO RELATED PERSONS TREATED AS NOTICE TO THE TAXPAYER.—

(A) IN GENERAL.—For purposes of subsection (d)(1)(C), any notice to a related person with respect to a matter which may materially affect the tax liability of the taxpayer for any taxable period shall be treated as notice to the taxpayer with respect to such taxable period.

(B) RELATED PERSON.—For purposes of subparagraph (A), the term "related person" means—

(i) any person who during the taxable period bore a relationship to the taxpayer described in section 267(b) of the Internal Revenue Code of 1954,

(ii) any partnership in which the taxpayer was a partner during the taxable period, or

(iii) any S corporation (as defined in section 1361 of such Code) in which the taxpayer was a shareholder during the taxable period.

(f) PERIODS FOR WHICH AMNESTY AVAILABLE.—The provisions of this section shall apply only to underpayments of Federal tax for taxable periods ending before January 1, 1984 (or, in the case of a tax for which there is no taxable period, taxable events before January 1, 1984).

(g) ADDITIONAL AUTHORIZATIONS.—

(1) AMNESTY PROGRAM.—There are authorized to be appropriated such sums as are necessary to administer the amnesty program, using special efforts to publicize such program including direct-mail contacts and radio, television, and print-media advertising.

(2) ADDITIONAL IRS AGENTS.—There are authorized to be appropriated such sums as are necessary to employ 3,000 additional Internal Revenue Service agents.

SEC. 3. CRIMINAL AND CIVIL TAX PENALTIES INCREASED BY 50 PERCENT.

(a) CIVIL PENALTIES.—

(1) Paragraphs (2) and (3) of section 6651(a) of the Internal Revenue Code of 1954 (relating to failure to file tax return or to pay tax) are each amended by striking out "0.5 percent" each place it appears and inserting in lieu thereof "0.75 percent".

(2) The following provisions of such Code are each amended by striking out "1 percent" each place it appears and inserting in lieu thereof "1.5 percent".

(A) Section 6657 (relating to bad checks).

(B) Subsection (b) of section 6706 (relating to original issue discount information requirements).

(C) Paragraph (2)(B)(i) of section 6707(a) (relating to failure to register tax shelter).

(3) The following provisions of such Code are each amended by striking out "5 percent" each place it appears and inserting in lieu thereof "7.5 percent".

(A) The heading and paragraph (1) of section 72(q) (relating to 5-percent penalty for premature distributions from annuity contracts).

(B) Paragraph (5)(A)(i) of section 6013(b) (relating to joint return after filing separate return).

(C) Paragraph (1) of section 6038(c) (relating to penalty of reducing foreign tax credit).

(D) Subsection (a)(1) of section 6651 (relating to file tax return or to pay tax).

(E) Subsection (a)(3)(A)(ii) and (g)(3)(B) of section 6652 (relating to failure to file certain information returns, registration statements, etc.).

(F) Paragraph (1) of section 6653(a) (relating to failure to pay tax).

(G) Subsection (a) of section 6656 (relating to failure to make deposit of taxes or overstatement of deposits).

(H) Subsection (a) of section 6677 (relating to failure to file information returns with respect to certain foreign trusts).

(I) Subsection (a) of section 6689 (relating to failure to file notice of redetermination of foreign tax).

(4) The following provisions of such Code are each amended by striking out "10 percent" each place it appears and inserting in lieu thereof "15 percent".

(A) Subsection (m)(5)(B) and (o)(2) of section 72 (relating to annuities; certain proceeds of endowment and life insurance contracts).

(B) Paragraph (1) of section 408(f) (relating to additional tax on certain amounts included in gross income before age 59½).

(C) Paragraph (1) of section 6038(c) (relating to penalty of reducing foreign tax credit).

(D) Paragraph (3)(A)(i) of section 6652(a) (relating to returns relating to information at source, payments of dividends, etc., and certain transfers of stock).

(E) Subsection (a) of section 6661 (relating to substantial understatement of liability).

(F) Section 6683 (relating to failure of foreign corporation to file return of personal holding company tax).

(5) The following provisions of such Code are each amended by striking out "10 percent" each place it appears and inserting in lieu thereof "15 percent".

(A) Subsection (b) of section 6659 (relating to addition to tax in the case of valuation overstatements for purposes of the income tax).

(B) Subsection (b) of section 6660 (relating to addition to tax in the case of valuation understatement for purposes of the estate or gift taxes).

(6) Subsection (a) of section 6700 of such Code (relating to promoting abusive tax shelters, etc.) is amended by striking out "20 percent" and inserting in lieu thereof "30 percent".

(7) The following provisions of such Code are each amended by striking out "20 percent" each place it appears and inserting in lieu thereof "30 percent".

(A) Subsection (b) of section 6659 (relating to addition to tax in the case of valuation overstatements for purposes of the income tax).

(B) Subsection (b) of section 6660 (relating to addition to tax in the case of valuation understatement for purposes of the estate or gift taxes).

(8) The following provisions of such Code are each amended by striking out "25 percent" each place it appears and inserting in lieu thereof "37.5 percent".

(A) Subsection (b) of section 6038B (relating to notice of certain transfers to foreign persons).

(B) Paragraphs (1), (2), and (3) of section 6651(a) (relating to failure to file tax return or to pay tax).

(C) Paragraph (1) of section 6656(b) (relating to overstated deposit claims).

(9) Subsection (f) of section 6659 of such Code (relating to addition to tax in the case of valuation overstatements for purposes of the income tax) is amended by striking out "30 percent" and inserting in lieu thereof "45 percent".

(10) The following provisions of such Code are each amended by striking out "30 percent" each place it appears and inserting in lieu thereof "45 percent".

(A) Subsection (b) of section 6659 (relating to addition to tax in the case of valuation overstatements for purpose of the income tax).

(B) Subsection (b) of section 6660 (relating to addition to tax in the case of valuation understatement for purposes of the estate or gift taxes).

(11) The following provisions of such Code are each amended by striking out "50 percent" each place it appears and inserting in lieu thereof "75 percent".

(A) Paragraph (5)(A)(ii) of section 6013(b) (relating to joint return after filing separate return).

(B) Paragraph (2) of section 6332(c) (relating to enforcement of levy).

(C) Subsection (c) of section 6652 (relating to failure to report tips).

(D) Subsection (a)(2), (b)(1), (b)(2), and (e) of section 6653 (relating to failure to pay tax).

(12) Subsection (b) of section 6697 of such Code (relating to assessable penalties with respect to liability for tax of qualified investment entities) is amended to read as follows:

"(b) 75-PERCENT LIMITATION.—The penalty payable under this section with respect to any determination shall not exceed 75 percent of the amount of the deduction allowed by section 860(a) for such taxable year.".

(13) Subsection (a) of section 6651 of such Code (relating to failure to file tax return or to pay tax) is amended by striking out "100 percent" and inserting in lieu thereof "150 percent".

(14) The following provisions of such Code are each amended by inserting "150 percent of" after "equal to" each place it appears.

(A) Subsection (a) of section 6672 (relating to failure to collect and pay over tax, or attempt to evade or defeat tax).

(B) Section 6684 (relating to assessable penalties with respect to liability for tax under chapter 42).

(C) Subsection (a) of section 6697 (relating to assessable penalties with respect to liability for tax of qualified investment entities).

(D) Subsection (a) of 6699 (relating to assessable penalties relating to tax credit employee stock ownership plans).

(15) Paragraph (1) of section 6621(d) of such Code (relating to interest on substantial underpayments attributable to tax motivated transactions) is amended by striking out "120 percent" and inserting in lieu thereof "180 percent".

(16) Subsection (a) of section 6675 of such Code (relating to excessive claims with respect to the use of certian fuels) is amended by striking out "Two times" and inserting in lieu thereof "Three times".

(17) Subsection (b) and (e) of section 6652 of such Code (relating to failure to file certain information returns, registration statements, etc.) is amended by striking out "$1" and inserting in lieu thereof "$1.50".

(18) The following provisions of such Code are each amended by striking out "$5" each place it appears and inserting in lieu thereof "$7.50".

(A) Section 6657 (relating to bad checks).

(B) Subsection (a) of section 6687 (relating to failure to supply identifying numbers).

(C) Subsection (a) of section 6687 (relating to failure to supply information with respect to place of residence).

(D) Paragraph (2) of section 6695(e) (relating to failure to file correct information return).

(19) The following provisions of such Code are each amended by striking out "$10" each place it appears and inserting in lieu thereof "$15".

(A) Subsections (d), (i), and (j) of section 6652 (relating to failure to file certain information returns, registration statements, etc.).

(B) Subsection (a) of section 6675 (relating to excessive claims with respect to the use of certain fuels).

(20) The following provisions of such Code are each amended by striking out "$25" each place it appears and inserting in lieu thereof "$37.50".

(A) Subsections (f), (g)(2), and (h) of section 6652 (relating to failure to file certain information returns, registration statements, etc.).

(B) Subsection (a), (b), and (c) of section 6695 (relating to other assessable penalties with respect to the preparation of income tax returns for other persons).

(21) The following provisions of such Code are each amended by striking out "$50" each place it appears and inserting in lieu thereof "$75".

(A) Paragraphs (1) and (2) of section 6652(a) (relating to returns relating to information at source, payments of dividends, etc., and certain transfers of stock).

(B) Section 6674 (relating to fraudulent statement or failure to furnish statement to employee).

(C) Subsection (a), (b), and (c) of section 6676 (relating to failure to supply identifying numbers).

(D) Subsection (a), (b), and (c) of section 6678 (relating to failure to furnish certain statements).

(E) Section 6690 (relating to fraudulent statement or failure to furnish statement to plan participant).

(F) Subsection (a) of section 6693 (relating to failure to provide reports on individual retirement accounts or annuities).

(G) Subsection (d) of section 6695 (relating to other assessable penalties with respect to the preparation of income tax returns for other persons).

(H) Subsection (b)(1) of section 6698 (relating to failure to file partnership return).

(I) Subsection (b)(1) of section 6704 (relating to failure to keep records necessary to meet reporting requirements under section 6047(e)).

(J) Subsection (a) of section 6706 (relating to original issue discount information requirements).

(K) Paragraph (2) of section 6707(b) (relating to failure to furnish tax shelter identification number).

(L) Subsection (a) of section 6708 (relating to failure to maintain lists of investors in potentially abusive tax shelters).

(22) The following provisions of such Code are each amended by striking out "$100" each place it appears and inserting in lieu thereof "$150".

(A) Subsection (as) of section 6651 (relating to failure to file tax return or to pay tax.

(B) Paragraph (3)(A)(iii) of section 6652(a) (relating to returns relating to information at source, payments of dividends, etc., and certain transfers of stock).

(C) Section 6686 (relating to failure to file returns or supply information by DISC or FSC).

(D) Section 6688 (relating to assessable penalties with respect to information required to be furnished under section 7654).

(E) Subsection (a) of section 6694 (relating to understatement of taxpayer's liability by income tax return preparer).

(F) Paragraph (1) of section 6695(e) (relating to failure to file correct information return).

(G) Paragraph (1) of section 6707(b) (relating to failure to furnish tax shelter identification number).

(23) Subsection (c) of section 6708 of such Code, as added by section 612(d)(1) of Deficit Reduction Act of 1984 (relating to penalties with respect to mortgage

credit certificates) is amended by striking out "$200" and inserting in lieu thereof "$300".

(24) The following provisions of such Code are each amended by striking out "$500" each place it appears and inserting in lieu thereof "$750".

(A) Subsection (a) of section 6602 (relating to false information with respect to withholding).

(B) Subsection (b) of section 6694 (relating to understatement of taxpayer's liability by income tax return preparer).

(C) Subsection (f) of section 6695 (relating to other assessable penalties with respect to the preparation of income tax returns for other persons).

(D) Subsection (a) of section 6702 (relating to frivolous income tax return).

(E) Subsection (a) of section 6705 (relating to failure by broker to provide notice to payors).

(F) Paragraph (2)(A) of section 6707(a) (relating to failure to register tax shelter).

(25) The following provisions of such Code are each amended by striking out "$1,000" each place it appears and inserting in lieu thereof "$1,500".

(A) Paragraphs (1) and (2) of section 6038(b) (relating to dollar penalty for failure to furnish information).

(B) Paragraphs (1) and (2) of section 6038A(d) (relating to penalty for failure to furnish information).

(C) Subsection (b) and (e)(2) of section 6652 (relating to failure to file certain information returns, registration statements, etc.).

(D) Subsection (a) of section 6679 (relating to failure to file information returns with respect to certain foreign trusts).

(E) Subsection (a) of section 6679 (relating to failure to file returns, etc. with respect to foreign corporations or foreign partnerships).

(F) Section 6685 (relating to assessable penalties with respect to private foundation annual returns).

(G) Section 6686 (relating to failure to file returns or supply information by DISC or FSC).

(H) Section 6692 (relating to failure to file actuarial report).

(I) Subsection (a) of section 6700 (relating to promoting abusive tax shelters, etc.).

(J) Subsection (b)(1) of section 6701 (relating to penalties for aiding and abetting understatement of tax liability).

(K) Subsection (a) of section 6708, as added by section 612(d)(1) of Deficit Reduction Act of 1984, (relating to penalties with respect to mortgage credit certificates).

(26) Subsection (c) of section 6708 of such Code, as added by section 612(d)(1) of Deficit Reduction Act of 1984 (relating to penalties with respect to mortgage credit certificates) is amended by striking out "$2,000" and inserting in lieu thereof "$3,000".

(27) The following provisions of such Code are each amended by striking out "$5,000" each place it appears and inserting in lieu thereof "$7,500".

(A) Subsections (d), (e)(1), and (i) of section 6652 (relating to failure to file certain information returns, registration statements, etc.).

(B) Section 6673 (relating to damages assessable for instituting proceedings before the tax court primarily for delay, etc.).

(28) The following provisions of such Code are each amended by striking out "$10,000" each place it appears and inserting in lieu thereof "$15,000".

(A) Paragraph (2)(A) of section 6038(c) (relating to penalty of reducing foreign tax credit).

(B) Subsection (h) of section 6652 (relating to failure to file certain information returns, registration statements, etc.).

(C) Subsection (b)(2) of section 6701 (relating to penalties for aiding and abetting understatement of tax liability).

(D) Paragraph (2) of section 6707 (relating to failure to register tax shelter).

(E) Subsection (b) of section 6708, as added by section 612(d)(1) of Deficit Reduction Act of 1984, (relating to penalties with respect to mortgage credit certificates).

(29) Subsection (f) of section 6652 of such Code (relating to failure to file certain information returns, registration statements, etc.) is amended by striking out "$15,000" and inserting in lieu thereof "$22,500".

(30) Subsection (e) of section 6695 of such Code (relating to other assessable penalties with respect to the preparation of income tax returns for other persons) is amended by striking out $20,000" and inserting in lieu thereof "$30,000".

(31) Paragraph (2) of section 6038A(d) of such Code (relating to penalty for failure to furnish information) is amended by striking out "$24,000" and inserting in lieu thereof "$36,000".

(32) The following provisions of such Code are each amended by striking out "$25,000" each place it appears and inserting in lieu thereof "$37,500".

(A) Paragraph (3) of section 6652(g) (relating to returns, etc., required under section 6039C).

(B) Section 6686 (relating to failure to file returns or supply information by DISC or FSC).

(C) Subsection (d) of section 6695 (relating to other assessable penalties with respect to the preparation of income tax returns for other persons).

(33) The following provisions of such Code are each amended by striking out "$50,000" each place it appears and inserting in lieu thereof "$75,000".

(A) Paragraphs (1) and (3)(B) of section 6652(a) (relating to returns relating to information at source, payments of dividends, etc., and certain transfers of stock).

(B) Subsection (a) of section 6676 (relating to failure to supply identifying numbers).

(C) Subsection (a) of section 6678 (relating to failure to furnish certain statements).

(D) Subsection (b)(2) of section 6704 (relating to failure to keep records necessary to meet reporting requirements under section 6047(e)).

(E) Subsection (a) of section 6708 (relating to failure to maintain lists of investors in potentially abusive tax shelters).

(b) CRIMINAL PENALTIES.—

(1) Paragraph (3) of section 9012(e) of such Code (relating to kickbacks and illegal payments) is amended by striking out "125 percent" and inserting in lieu thereof "187.5 percent".

(2) Subsection (b) of section 7212 of such Code (relating to attempts to interfere with administration of internal revenue laws) is amended by striking out "$500" and inserting in lieu thereof "$750", and by striking out "double" and inserting in lieu thereof "triple".

(3) The following provisions of such Code are each amended by striking out "$1,000" each place it appears and inserting in lieu thereof "$1,500".

(A) Section 7204 (relating to fraudulent statement or failure to make statement to employees).

(B) Subsections (a) and (b) of section 7205 (relating to fraudulent withholding exemption certificate or failure to supply information).

(C) Section 7209 (relating to unauthorized use or sale of stamps).

(D) Section 7210 (relating to failure to obey summons).

(E) Section 7211 (relating to false statements to purchasers or lessees relating to tax).

(F) Subsection (b) of section 7213 (relating to unauthorized disclosure of information).

(G) Subsection (a) of section 7216 (relating to disclosure or use of information by preparers of returns).

(4) Subsection (a) of section 7212 of such Code (relating to attempts to interfere with administration of internal revenue laws) is amended by striking out "$3,000" and inserting in lieu thereof "$4,500".

(5) The following provisions of such Code are each amended by striking out "$5,000" each place it appears and inserting in lieu thereof "$7,500".

(A) Subsection (a) of section 7212 (relating to attempts to interfere with administration of internal revenue laws).

(B) Subsection (a) of section 7213 (relating to unauthorized disclosure of information).

(C) Subsection (b) of section 7214 (relating to offenses by officers and employees of the United States).

(D) Subsection (a) of section 7215 (relating to offenses with respect to collected taxes).

(E) Section 7231 (relating to faihure to obtain license for collection of foreign items).

(F) Section 7232 (relating to failure to register or false statement by manufacturer or producer of gasoline or lubricating oil).

(G) Subsections (a)(2), (b)(3), (f)(3), and (g)(2) of section 9012 (relating to criminal penalties).

(6) The following provisions of such Code are each amended by striking out "$10,000" each place it appears and inserting in lieu thereof "$15,000".

(A) Section 7202 (relating to willful failure to collect or pay over tax).

(B) Section 7207 (relating to fraudulent returns, statements, or other documents).

(C) Section 7208 (relating to offenses relating to stamps).

(D) Subsection (a) of section 7214 (relating to offenses by officers and employees of the United States).

(E) Section 7240 (relating to officials investing or speculating in sugar).

(F) Section 7241 (relating to willful failure to furnish certain information regarding windfall profit tax on domestic crude oil).

(G) Subsection (c)(3), (d)(2), and (e)(2) of section 9012 (relating to criminal penalties).

(H) Subsections (b)(2), (c)(2), and (d)(2) of section 9042 (relating to criminal penalties).

(7) The following provisions of such Code are each amended by striking out "$25,000" each place it appears and inserting in lieu thereof "$37,500".

(A) Section 7203 (relating to willful failure to file return, supply information, or pay tax).

(B) Subsection (a) of section 9042 (relating to criminal penalties).

(8) Section 7207 of such Code (relating to fraudulent returns, statements, or o ıer documents) is amended by striking out "$50,000" and inserting in lieu thereof "$75,000".

(9) The following provisions of such Code are each amended by striking out "$100,000" each place it appears and inserting in lieu thereof "$150,000".

(A) Section 7201 (relating to attempt to evade or defeat tax).

(B) Section 7203 (relating to willful failure to file return, supply information, or pay tax).

(C) Section 7206 (relating to fraud and false statements).

(10) The following provisions of such Code are each amended by striking out "$500,000" each place it appears and inserting in lieu thereof "$750,000".

(A) Section 7201 (relating to attempt to evade or defeat tax).

(B) Section 7206 (relating to fraud and false statements).

(11) Section 7209 of such Code (relating to unauthorized use or sale of stamps) is amended by striking out "6 months" and inserting in lieu thereof "9 months".

(12) The following provisions of such Code are each amended by striking out "$1 year" each place it appears and inserting in lieu thereof "1.5 years".

(A) Section 7203 (relating to willful failure to file return, supply information, or pay tax.

(B) Section 7204 (relating to fraudulent statement or failure to make statement to employees).

(C) Section 7205 (relating to fraudulent withholding exemption certificate or failure to supply information).

(D) Section 7207 (relating to fraudulent returns, statements, or other documents).

(E) Section 7210 (relating to failure to obey summons).

(F) Section 7211 (relating to false statements to purchasers or lessees relating to tax).

(G) Subsection (a) of section 7212 (relating to attempts to interfere with administration of internal revenue laws).

(H) Subsection (b) of section 7213 (relating to unauthorized disclosure of information).

(I) Subsection (a) of section 7215 (relating to offenses with respect to collected taxes).

(J) Subsection (a) of section 7216 (relating to disclosure or use of information by preparers of returns).

(K) Section 7231 (relating to failure to obtain license for collection of foreign items).

(L) Section 7241 (relating to willful failure to furnish certain information regarding windfall profit tax on domestic crude oil).

(M) Subsections (a)(2), (b)(3), (f)(3), and (g)(2) of section 9012 (relating to criminal penalties).

(13) The following provisions of such Code are each amended by striking out "2 years" each place it appears and inserting in lieu thereof "3 years".

(A) Subsection (b) of section 7212 (relating to attempts to interfere with administration of internal revenue laws).

(B) Section 7240 (relating to officials investing or speculating in sugar).

(14) The following provisions of such Code are each amended by striking out "3 years" each place it appears and inserting in lieu thereof "4.5 years".

(A) Section 7206 (relating to fraud and false statements).

(B) Subsection (a) of section 7212 (relating to attempts to interfere with administration of internal revenue laws).

(15) The following provisions of such Code are each amended by striking out "5 years" each place it appears and inserting in lieu thereof "7.5 years".

(A) Section 7201 (relating to attempt to evade or defeat tax).

(B) Section 7202 (relating to willful failure to collect or pay over tax).

(C) Section 7208 (relating to offenses relating to stamps).

(D) Section 7213 (relating to unauthorized disclosure of information).

(E) Subsection (a) of section 7214 (relating to offenses by officers and employees of the United States).

(F) Section 7232 (relating to failure to register, or false statement by manufacturer or producer of gasoline or lubricating oil).

(G) Subsections (c)(3), (d)(2), and (e)(2) of section 9012 (relating to criminal penalties).

(H) Section 9042 (relating to criminal penalties).

(c) OTHER PENALTIES.—

(1) Section 7273 of such Code (relating to penalties for offenses relating to special taxes) is amended by inserting "double the amount of" after "equal to".

(2) The following provisions of such Code are each amended by striking out "double" each place it appears and inserting in lieu thereof "triple".

(A) Section 7268 (relating to possession with intent to sell in fraud of law or to evade tax).

(B) Section 7270 (relating to insurance policies).

(C) Section 7273 (relating to penalties for offenses relating to special taxes).

(3) Section 7273 of such Code (relating to penalties for offenses relating to special taxes) is amended by striking out "$10" and inserting in lieu thereof "$15".

(4) The following provisions of such Code are each amended by striking out "$50" each place it appears and inserting in lieu thereof "$75".

(A) Section 7271 (relating to penalties for offenses relating to stamps).

(B) Section 7272 (relating to penalty for failure to register).

(5) Subsection (c) of section 7275 of such Code (relating to penalty for offenses relating to certain airline tickets and advertising) is amended by striking out "$100" and inserting in lieu thereof "$150".

(6) The following provisions of such Code are each amended by striking out "$500" each place it appears and inserting in lieu thereof "$750".

(A) Section 7268 (relating to possession with intent to sell in fraud of law or to evade tax).

(B) Section 7269 (relating to failure to produce records).

(7) The following provisions of such Code are each amended by striking out "$1,000" each place it appears and inserting in lieu thereof "$1,500".

(A) Section 7261 (relating to representation that retailers' excise tax is excluded from price of article).

(B) Section 7262 (relating to violation of occupational tax laws relating to wagering—failure to pay special tax).

(8) Section 7262 of such Code (relating to violation of occupational tax laws relating to wagering—failure to pay special tax) is amended by striking out "$15,000" and inserting in lieu thereof "$7,500".

(d) EXCISE TAX PENALTIES.—

(1) Subsection (a)(1) of section 4701 of such Code (relating to tax on issuer of registration—required obligation not in registered form) is amended by striking out "1 percent" and inserting in lieu thereof "1.5 percent".

(2) The following provisions of such Code are each amended by striking out "2½ percent" each

place it appears and inserting in lieu thereof "3.75 percent".

(A) Subsection (a)(2) of section 4941 (relating to taxes on self-dealing).

(B) Subsection (a)(2) of section 4945 (relating to taxes on taxable expenditures).

(C) Subsection (a)(2) of section 4951 (relating to taxes on self-dealing).

(D) Subsection (a)(2) of section 4952 (relating to taxes on taxable expenditures).

(3) Section 4981 of such Code (relating to excise tax based on certain real estate investment trust taxable income not distributed during the taxable year) is amended by striking out "3 percent" and inserting in lieu thereof "4.5 percent".

(4) The following provisions of such Code are each amended by striking out "5 percent" each place it appears and inserting in lieu thereof "7.5 percent".

(A) Subsection (a)(1) of section 4941 (relating to taxes on self-dealing).

(B) Subsection (a)(1) of section 4943 (relating to taxes on excess business holdings).

(C) Subsections (a) and (b)(2) of section 4944 (relating to taxes on investments which jeopardize charitable purpose).

(D) Subsection (a) of section 4953 (relating to tax on excess contributions to black lung benefit trusts).

(E) Subsection (a) of section 4971 (relating to tax on prohibited transactions).

(F) Subsection (a) of section 4975 (relating to tax on prohibited transactions).

(5) Subsection (a) of section 4973 of such Code (relating to tax on excess contributions to individual retirement accounts, certain section 403(b) contracts, and certain individual retirement annuities) is amended by striking out "6 percent" each place it appears and inserting in lieu thereof "9 percent".

(6) The following provisions of such Code are each amended by striking out "10 percent" each place it appears and inserting in lieu thereof "15 percent".

(A) Subsection (a)(1) of section 4945 (relating to taxes on taxable expenditures).

(B) Subsection (a)(1) of section 4951 (relating to taxes on self-dealing).

(C) Subsection (a)(1) of section 4952 (relating to taxes on taxable expenditures).

(D) Subsection (b)(1) of section 4978 (relating to tax on certain dispositions by employee stock ownership plans and certain cooperatives).

(7) Subsection (a) of section 4942 of such Code (relating to taxes on failure to distribute income) is amended by striking out "15 percent" and inserting in lieu thereof "22.5 percent".

(8) The following provisions of such Code are each amended by striking out "25 percent" each place it appears and inserting in lieu thereof "37.5 percent".

(A) Subsection (a)(1) of section 4911 (relating to tax on excess expenditures to influence legislation).

(B) Subsection (b)(1) of section 4944 (relating to taxes on investments which jeopardize charitable purpose).

(9) Subsection (a) of section 4977 of such Code (relating to tax on certain fringe benefits provided by an employer) is amended by striking out "30 percent" and inserting in lieu thereof "45 percent".

(10) The following provisions of such Code are each amended by striking out "50 percent" each place it appears and inserting in lieu thereof "75 percent".

(A) Subsection (b)(2) of section 4941 (relating to taxes on self-dealing).

(B) Subsection (b)(2) of section 4945 (relating to taxes on taxable expenditures).

(C) Subsection (b)(2) of section 4951 (relating to taxes on self-dealing).

(D) Subsection (b)(2) of section 4952 (relating to taxes on taxable expenditures).

(E) Subsection (a) of section 4974 (relating to excise tax on certain accumulations in individual retirement accounts or annuities).

(11) The following provisions of such Code are each amended by striking out "100 percent" each place it appears and inserting in lieu thereof "200 percent".

(A) Paragraph (6)(A) of section 857(b) (relating to method of taxation of real estate investment trusts and holders of shares or certificates of beneficial interest).

(B) Subsection (b) of section 4942 (relating to taxes on failure to distribute income).

(C) Subsection (b)(1) of section 4945 (relating to taxes on taxable expenditures).

(D) Subsection (b)(1) of section 4951 (relating to taxes on self-dealing).

(E) Subsection (b)(1) of section 4952 (relating to taxes on taxable expenditures).

(F) Subsection (b) of section 4971 (relating to taxes on failure to meet minimum funding standards).

(G) Subsection (b) of section 4975 (relating to tax on prohibited transactions).

(H) Subsection (a) of section 4976 (relating to taxes with respect to funded welfare benefit plans).

(12) The following provisions of such Code are each amended by striking out "200 percent" each place it appears and inserting in lieu thereof "300 percent".

(A) Subsection (b)(1) of section 4941 (relating to taxes on self-dealing).

(B) Subsection (b) of section 4943 (relating to taxes on excess business holdings).

(13) Paragraph (5) of section 857(b) of such Code (relating to method of taxation of real estate investment trusts and holders of shares or certificates of beneficial interest) is amended by inserting "2 times" after "equal to".

(14) The following provisions of such Code are each amended by striking out "$5,000" each place it appears and inserting in lieu thereof "$7,500".

(A) Subsection (d)(2) of section 4944 (relating to taxes on investments which jeopardize charitable purpose).

(B) Subsection (c)(2) of section 4945 (relating to taxes on taxable expenditures).

(15) The following provisions of such Code are each amended by striking out "$10,000" each place it appears and inserting in lieu thereof "$15,000".

(A) Subsection (c)(2) of section 4941 (relating to taxes on self-dealing).

(B) Subsection (d)(2) of section 4944 (relating to taxes on investments which jeopardize charitable purpose).

(C) Subsection (c)(2) of section 4945 (relating to taxes on taxable expenditures).

(e) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 1983 (or, in the case of a tax for which there is no taxable period, taxable events occurring after such date).

(2) AMNESTY PERIOD.—At the expiration of the amnesty period described in section 2, in the case of any taxpayer remaining liable for any underpayment of

Federal tax, the amendments made by this section shall apply to any taxable year (or any taxable event occurring during such taxable year) for which any period of limitation has not expired.

(3) EXCEPTION.—Paragraphs (1) and (2) shall not apply to any judicial or administrative proceeding with respect to any underpayment of Federal tax pending on the date of enactment of this Act in which a judgment was entered before such date.

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II

99TH CONGRESS
1ST SESSION

S. 205

To amend the Internal Revenue Code of 1954 to provide a mechanism for taxpayers to designate $1 of any overpayment of income tax, and to contribute other amounts, for payment to the National Organ Transplant Trust Fund.

IN THE SENATE OF THE UNITED STATES

JANUARY 21, 1985

Mr. BUMPERS introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To amend the Internal Revenue Code of 1954 to provide a mechanism for taxpayers to designate $1 of any overpayment of income tax, and to contribute other amounts, for payment to the National Organ Transplant Trust Fund.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Organ Transplant Contributions Act of 1985".

SEC. 2. Statement of Congressional findings and purposes.

(a) The Congress finds that there exists an urgent national health problem in the area of human organ transplantation, and that the Federal government is morally obligated to assist those citizens who are in need of organ transplant surgery.

(b) The Congress finds that advances in medical science have made organ transplantation an accepted medical treatment in an increasing number of cases, but that the cost associated with such treatment remain beyond the reach of many Americans.

(c) The Congress finds that many organtransplant procedures remain experimental in nature and that further organ transplant research should be encouraged so that the horizons of medical knowledge may be expanded and the quality of health care improved.

(d) The Congress finds that a number of States have established programs to assist citizens in obtaining needed transplant procedures, and that a number of charitable organizations are available to assist such persons, but there remains a substantial unmet need in this area.

(e) The Congress finds it necessary, therefore, to establish a National Organ Transplant Fund in the Treasury of the United States which shall be used to assist those Americans who are in need of transplant surgery and who have no other means of paying for such treatment; and it is the intent of the

Congress that this Trust Fund shall be administered under regulations to be promulgated by the Secretary of Health and Human Services and shall be funded solely by voluntary taxpayer contributions under a taxpayer check-off system to be established by this Act.

(f) It is further the intent of the Congress that the National Organ Transplant Trust Fund be administered by the Secretary of fairly and expeditiously, taking into account the medical condition of the applicant, the financial resources of the applicant and his or her ability to raise funds from state and private charitable sources, including the resources which the transplant center may devote to transplant research.

SEC. 3. DESIGNATION OF OVERPAYMENTS AND CONTRIBUTIONS FOR NATIONAL ORGAN TRANSPLANT TRUST FUND.

(a) IN GENERAL.—Subchapter A of chapter 61 of the Internal Revenue Code of 1954 (relating to returns and records) is amended by adding at the end thereof the following new part:

"PART IX—DESIGNATION OF OVERPAYMENTS AND CONTRIBUTIONS FOR NATIONAL ORGAN TRANSPLANT TRUST FUND

"Sec. 6097. Amounts for National Organ Transplant Trust Fund.

"SEC. 6097. AMOUNTS FOR NATIONAL ORGAN TRANSPLANT TRUST FUND.

"(a) IN GENERAL.—With respect to each taxpayer's return for the taxable year of the tax imposed by chapter 1, such taxpayer may designate that—

"(1) any portion any overpayment of such tax for such taxable year, and

"(2) any cash contribution which the taxpayer includes with such return,

be paid over to the National Organ Transplant Trust Fund.

"(b) JOINT RETURNS.—In the case of a joint return showing an overpayment, each spouse may any portion of such overpayment under subsection (a)(1).

"(c) MANNER AND TIME OF DESIGNATION.—A designation under subsection (a) may be made with respect to any taxable year only at the time of filing the return of the tax imposed by chapter 1 for such taxable year. Such designation shall be made on the first page of the return.

"(d) OVERPAYMENTS TREATED AS REFUNDED.—For purposes of this title, any overpayment of tax designated under subsection (a) shall be treated as being refunded to the taxpayer as of the last date prescribed for filing the return of tax imposed by chapter 1 (determined without regard to extensions) or, if later, the date the return is filed.".

(b) CLERICAL AMENDMENT.—The table of parts for subchapter A of chapter 61 of such Code is amended by adding at the end thereof the following new item:

"PART IX—DESIGNATION OF OVERPAYMENTS AND CONTRIBUTIONS FOR NATIONAL ORGAN TRANSPLANT TRUST FUND.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after the date of enactment of this Act.

SEC. 4. ESTABLISHMENT OF NATIONAL ORGAN TRANSPLANT TRUST FUND.

(a) IN GENERAL.—Subchapter A of chapter 98 of the Internal Revenue Code of 1954 (relating to trust fund code) is amended by adding at the end thereof the following new section:

"SEC. 9504. NATIONAL ORGAN TRANSPLANT TRUST FUND.

"(a) CREATION OF TRUST FUND.—There is established in the Treasury of the United States a trust fund to be known as the 'National Organ Transplant Trust Fund', consisting of such amounts as may be appropriated or credited to the National Organ Transplant Trust Fund as provided in this section or section 9602(b).

"(b) TRANSFER TO NATIONAL ORGAN TRANSPLANT TRUST FUND OF AMOUNTS DESIGNATED.—There is hereby appropriated to the National Organ Transplant Trust Fund amounts equivalent to the amounts designated under section 6097 and received in the Treasury.

"(c) EXPENDITURES FROM TRUST FUND.—

"(1) IN GENERAL.—The Secretary shall pay, on the order of the Secretary of Health and Human Services, amounts on behalf of eligible individuals to health care facilities specified by the Secretary of Health and Human Services in carrying out section 5 of the National Organ Transplant Contributions Act of 1984.

"(2) ADMINISTRATIVE EXPENSES.—Amounts in the National Organ Transplant Fund shall be available to pay the administrative expenses of the Department of the Treasury directly allocable to—

"(A) modifying the individual income tax return forms to carry out section 6097,

"(B) carrying out this chapter with respect to such Fund, and

"(C) processing amounts received under section 6097 and transferring such amounts to such Fund.".

(b) CLERICAL AMENDMENT.—The table of sections for such subchapter A is amended by adding at the end thereof the following new item:

"Sec. 9504. National Organ Transplant Trust Fund.".

SEC. 4. ORGAN TRANSPLANTATION PAYMENTS PROGRAM.

(a) ESTABLISHMENT OF PROGRAM.—The Secretary of Health and Human Services shall authorize payments by the Secretary of the Treasury from the National Organ Trans-

plant Trust Fund on behalf of eligible individuals. Such payments shall be available to pay the costs of organ transplantation procedures, both preoperatively and postoperatively, for such individuals.

(b) REGULATIONS.—The Secretary of Health and Human Services shall prescribe by regulations the procedures which shall be eligible for payment, the maximum amounts payable for each such procedure, and the terms and conditions under which payments will be made on behalf of an eligible individual under this section. Such regulations shall specify, at a minimum—

(1) procedures, terms, and conditions for the verification of the need for organ transplantation by an eligible individual;

(2) criteria for the determination of which individuals are eligible individuals under this section and procedures to verify the eligibility of such individuals;

(3) the types of organ transplantation procedures for which payments may be made under this section; and

(4) procedures for certification of health care facilities as transplant centers authorized to perform transplant procedures on persons eligible for assistance under this Act.

(c) DEFINITIONS.—For purposes of this Act—

(1) the term "eligible individual" means an individual who, as determined by the Secretary of Health and Human Services by regulation, has a life-threatening medical condition for which a transplant procedure is reasonably medically necessary, and who has no source of payment for an organ transplantation procedure, including sources of payment such as—

(A) the program established by titles XVIII of the Social Security Act;

(B) a State plan under title XIX of such Act; and

(C) any insurance coverage applicable to such individual; and

(2) the term "organ" means the eye, kidney, liver, pancreas, heart, lung, bone marrow, or any other organ or tissue included by the Secretary of Health and Human Services by regulation, whether from a human body or artificially manufactured.

(3) "Transplant center" means a health care facility which has been certified by the Secretary of Health and Human Services as qualified to perform specified types of transplant procedures.

(4) "Transplant procedure" means the surgical procedures necessary to accomplish the organ transplant, as well as appropriate preoperative and postop-

erative treatments, including immunosuppressive drugs, approved under the Federal Food, Drug, and Cosmetic Act, furnished by a transplant center, as defined herein, in connection with a transplant procedure, but only if furnished not later than the end of the thirty-sixth month after the month in which the individual receives the transplant for which the drugs are furnished.

SEC. 5. This statute shall not be construed to create any private right to sue by or on behalf of any person defined as an "eligible person" under this Act, and shall not be construed to create an entitlement on behalf of any individiual.

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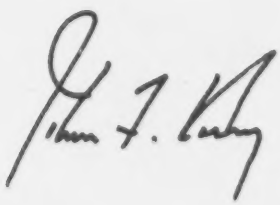
[redacted] STATEMENT OF SENATOR KERRY
IN SUPPORT OF DIXON AMNESTY BILL

Mr. Chairman, I am pleased to support Senator Dixon's bill, S. 203, calling for a national tax amnesty program. Senator Dixon's proposal for a limited amnesty period, followed by an increase in the enforcement efforts of the IRS, is the right idea, at the right time. It speaks to the immediate need to reduce the deficit-- which it would do bringing in a potential revenue windfall of up to $15 or $20 billion-- at the same time it addresses the long-term decline in taxpayer voluntary compliance.

Those officials in the Reagan Administration who oppose Senator Dixon's proposal put forth a variety of excuses for their failure to give the idea a try. It is interesting to note, however, that their arguments are based entirely on abstract assumptions about taxpayer attitides and possible reactions to an amnesty program. These officials conviently ignore the facts about the



success amnesty programs have encountered in more than a dozen states over the last three years.

I have seen the remarkable success of one such program firsthand, in Massachusetts. In the spring of 1983, the Massachusetts Department of Revenue estimated that 640 million in tax revenues were being evaded each year, amounting to approximately 12% of the annual revenue collection. Recognizing the severity of this problem, and mindful that a continued increase in tax evasion would lead inevitably to higher taxes for our honest taxpayers, Governor Michael Dukakis designed a strategy to attack tax cheating head-on: amnesty was a vital element of the program proposed by the Governor and adopted by the state legislature.

As Thomas Herman, First Deputy Commissioner of the Massachusetts Department of Revenue, has explained in his testimony before this Committee, the state-wide amnesty program was implemented as part of a plan entitled REAP-Revenue Enforcement and Protection. In addition to granting a one-time amnesty to taxpayers coming forward to make good on past obligations, a range of "get tough" enforcement policies were adpoted as well. The program made tax evasion a felony and gave the Massachusetts government the power to revoke or refuse to renew state and local government licences and contracts to those

individuals who had not filed or paid their taxes. Another provision allowed the government to engage private collection agencies to act on long-standing delinquent accounts. The government organized and conducted a seizure drive, examining two seriously delinquent businesses per day. In addition to these legal powers, the 1984 Massachusetts state budget provided the Department of Revenue a 30% increase in their appropriations for bolstered staff and more advanced resources.

In Massachusetts alone, during the perios of amnesty which REAP provided for, some 50,000 individuals came forward to pay their past tax liabilities. Financially, this translated into over 80 million dollars for the state; an estimated 37 to 1 return on every dollar invested in special costs for the program. Since amnesty in Massachusetts, the state has experienced a record increase in fiscal year 1984, and the next fiscal year will match and exceed that increase.

In Massachusetts, amnesty was offered as a transition to a new era of more stringent tax enforcement, with the revenue department demonstrating quite visibly that its bark was just as bad as its bite. This example illustrates what I feel is a very important point. When we, as our nation's representatives, show our citizens that we take our tax laws seriously, then they will too.

A program like amnesty shows citizens that we will provide for the legislation to enforce our laws.

The rapid rate at which states are adopting amnesty programs and their success speak for themselves. To date, fourteen states have enacted if not yet installed tax amnesty plans and at least four more states are seriously considering such an option. If such a plan were implemented on a federal level, the financial effects would multiply.

I strongly urge you as my colleagues to support Senator Dixon's tax amnesty plan as a part of the tax reform package. I believe that it would also reinforce the proposals for increased enforcement which are contained in a bill which I recently introduced, the Taxpayer Awareness and Enforcement Act of 1985, S. 1152.

Surveys conducted by the IRS indicate that the general public is well aware of the vast number of Americans who get away with cheating. They must believe that they can get away with it for such widespread tax evasion to occur. We, as our nation's legislators, must show them otherwise, if ever the tide will turn. According to Senator Dixon, the "vast majority of honest taxpayers will see a one-time tax amnesty for what it is-a demonstration of the extraordinary lengths the government is prepared to go to collect delinquent tax payments." It is my belief that these people will have more faith in

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their government for instituting such a system. The not so honest taxpayers, on the other hand, will realize that the government is serious about its tax legislation, and if they do not pay their liabilities, they will be prosecuted.

As the federal deficit continues to grow, we as our nation's representatives have a responsibility to find and implement the right solutions to our problem. I urge you, as a part of the tax reform effort, to support a program of tax amnesty as the tax reform issue comes before us. We in Congress have the vote, and the power to implement a working solution. I believethat Senator Dixon's Federal Tax Delinquency Act of 1985-S.203, is such a one and deserves a chance to prove itself on the federal level. I hope that you will consider it carefully when the issue comes up again.

Senator CHAFEE. Good morning.

Senator DIXON. Good morning, Mr. Chairman.

Senator CHAFEE. Good morning, Senator. Delighted to have you here.

Today we are holding a hearing on Senator Dixon's bill, S. 203, a bill to create a Federal tax amnesty program. Recently, we've heard much about the existence of a vast and growing underground economy. The tax compliance problem has actually been one of the moving forces behind the tax reform proposals that we are currently considering in the Congress.

As I have often stated—and I think we will all agree—that people will obey the law if they respect the law. So in that sense we are addressing this compliance problem as we are working to make our tax system more fair.

The key word, of course, is "fair." We have to assure that all those in the lower- and middle-income brackets who are filing the short form that those who are itemizing are paying their fair share. But there is another problem which must be adjusting even as we are addressing the system. That's the problem of bringing those who have cheated or dropped out in the past back into the system.

This is one of the problems we will be focusing on today.

S. 203 proposes the type of program, an amnesty, which has been recently tried with varying success in 12 States: Alabama, Arizona, California, Idaho, Illinois, Kansas, Massachusetts, Minnesota, Missouri, North Dakota, Oklahoma and Texas. And tried in at least three foreign countries: Italy, France and Belgium.

These amnesties have permitted taxpayers to report previously unpaid taxes without being subjected to penalties or prosecution. There is potential in this type of plan to raise considerable revenue, which is always welcome.

Senator Dixon's own State of Illinois, I understand, last year in a 2-month period collected $127½ million. It's estimated that this amount equals nearly 15 percent of the outstanding delinquent taxes. This percentage of collections if duplicated on a national scale would bring in approximately $12 to $15 billion.

This potential, of course, must be weighed against concerns which have caused other States not to enter into tax amnesty programs. The concern of those States is that this approach rewards people who haven't paid their taxes at the expense of those who have obeyed the law.

There is also the fear that an amnesty would be an incentive to law-abiding citizens to avoid paying their taxes in the hope or expectation that Congress would repeat this type of program.

So we welcome this opportunity to listen to what has been learned in these States with their experiences and to hear how this type of program might be implemented on the Federal level.

And I want to compliment Senator Dixon for his keen interest in this subject. He has pursued it vigorously and, of course, can report to us on the experience in his own State.

So, Senator, we welcome you here and look forward to what you have to say on this important subject.

STATEMENT OF HON. ALAN J. DIXON, U.S. SENATOR, STATE OF ILLINOIS

Senator DIXON. Thank you, Mr. Chairman.

Mr. Chairman, let me begin by expressing my deep gratitude to you as the chairman of this subcommittee for scheduling this hearing on my bill.

S. 203 is known as the Federal Tax Delinquency Amnesty Act of 1985. I know your schedule is very crowded and I appreciate your willingness to afford me this opportunity. Let me also express my regret that my long-time friend, the distinguished president of the Illinois State Senate, Senator Phil Rock, is unable to be here today. The Illinois legislative session ends on June 30, and legislative business there forced him to cancel his appearance.

He was the father of the successful Illinois amnesty legislation. I hope the committee will be able to afford him an opportunity to testify in person on another occasion.

For today, Mr. Chairman, I would appreciate it if the chairman would include Senator Rock's prepared statement in the hearing record. And may I say, Mr. Chairman, I have a prepared statement from Senator Rock and also a more lengthy statement of my own, each of which I would ask the Chair to place in the record.

Senator CHAFEE. Yes; they definitely will be.

[The prepared statements of Senator Dixon and State Senator Rock of Illinois follow:]

June 24, 1985

Statement of Senator Alan J. Dixon

Senate Finance Subcommittee on Taxation and Debt Management

On

S. 203, the Federal Tax Delinquency Amnesty Act of 1985

Let me begin by expressing my deep gratitude to the Chairman of the Subcommittee, my distinguished colleague from Rhode Island, Senator Chafee, for scheduling this hearing on my bill, S. 203, the Federal Tax Delinquency Amnesty Act of 1985. I know his schedule is very crowded, and I appreciate his willingness to afford me this opportunity.

Let me also express my regret that my longtime friend, the distinguished President of the Illinois Senate, Phil Rock, is unable to be here today. The Illinois legislative session ends on June 30th, and legislative business there forced him to cancel his appearance. he was the father of the successful Illinois amnesty legislation. I hope the Committee will be able to afford him an opportunity to testify in person on another occasion. For today, I would appreciate it if the Chairman would include his prepared statement in the hearing record.

We are here to talk about tax amnesty. The issue of amnesty arises because, as I'm sure the Chairman knows, there is substantial and growing noncompliance with our nation's tax laws.

In 1981, the most recent year for which comprehensive data is available, federal tax collections were more than $81 billion below what they would have been if every taxpayer had paid his or her legal tax obligations. Individual taxpayers failed to report to the Internal Revenue Service almost $250 billion in income that year.

Unfortunately, 1981 is not an unusual year. The "tax gap" was more than $28 billion in 1973, or approximately double the budget deficit of $14 billion that year, and it has increased steadily since then. The Treasury Department anticipates a "tax gap" -- the difference between the amount of tax that would be collected with 100% compliance with our nation's tax laws and what is actually collected -- of $92

billion or more in 1985, and believes that level could rise to between $386 to $473 billion by the turn of the century.

The growth in the "tax gap" is not simply due to economic growth; percentage compliance levels, according to the IRS, are currently only about 80%, and are declining by about 0.2% per year. Now that may not seem like a large number, but over time, and given the size of the U.S. economy, it represents a real problem.

I know the members of the Finance Committee are very expert on the dimensions of the compliance problems, so I don't want to take a whole lot of time in this area. However, I do think that two points need to be highlighted.

First, most of the noncompliance is not from people who don't file tax returns at all. In 1981, only $2.9 billion of the $81 billion "tax gap" was attributed to nonfilers. Over $52 billion, however, resulted from people who filed tax returns but who understated their income. Another $13 billion came from taxpayers who filed, but who took larger deductions than they were entitled to.

While almost 94% of wages and salaries were reported to the IRS in 1981, only 83% of the dividends, only 86% of the interest, only 60% of the capital gains, only 62% of the alimony, and only 76% of the estate and trust income was reported that year.

Second, these delinquent taxpayers are not basically crooks. As Jack Warren Wade, Jr., a former IRS Revenue Officer stated in testimony before the Senate Finance Subcommittee on Oversight of the Internal Revenue Service in May 1983, most tax cheaters are otherwise honest citizens who earn their livings respectably; and are "caught in a vicious web of delinquency they want to abandon, but don't know how."

I might say I have had some personal experience on this last point. Since I introduced S. 203, my office has received phone calls every day from delinquent taxpayers who want to repay the service, but who are afraid of potential criminal or civil sanctions if they contact the IRS.

Congress has recognized the growing compliance problem these numbers represent and has taken a number of actions to try to correct it. Just last month, during consideration of S. Con. Res. 32, the budget resolution, the Senate adopted, by an overwhelming vote of 93 to 5, a resolution offered by the distinguished Senator from Massachusetts, Senator Kerry, urging the taxwriting committees to act to strengthen tax compliance. Much of the tax legislation in the last three years have also had improved tax compliance as a major objective.

Congress has also been part of the problem, however. We have let IRS manpower levels erode in the past few years. IRS personnel levels are only now returning to their 1980 levels, and are still grossly inadequate to cover the increase in workload caused by increased complexity and the increasing number of tax returns being filed. To cite just one measure of this problem, in 1976, the service audited 2.6% of tax returns; this year it will audit only 1.2%, or less than half the 1976 level.

Further, there have been 19 major changes in the tax law in the past 22 years. The tax code has become so complicated that over 44% of all taxpayers are now using paid preparers, up from 37% just two years ago. The complexity and rapid pace of change has encouraged the growth of the perception that the tax code is unfair, and therefore helped to undermine the voluntary compliance that our tax laws fundamentally depend upon.

According to a survey commissioned by the IRS last year, the public is well aware of the compliance problem. A majority of Americans believe that tax cheating is on the rise, and that 25% of taxpayers cheat. One-quarter of the survey believes that a majority of taxpayers cheat. Roughly 20% admit cheating on their own tax returns.

The survey found that the major cause of the rise in noncompliance seems to be that most Americans believe the tax system is unfair and inequitable. 75% believe their taxes are to high in relation to the governmental services they receive. An appalling 80% believe the present tax system benefits the rich and is unfair to the average working man. And two out of three believe they pay more than their fair share.

The fundamental tax reform proposals now before the congress are an attempt to deal with the interrelated problems of fairness, complexity, and noncompliance. In fact, the administration's proposal is titled "The President's Tax Proposals to the Congress for Fairness, Growth, and Simplicity."

Now I don't want to take time this morning to talk about the merits of specific elements of the various tax reform proposals. That subject is best left to another forum. I do want to point out, however, that there is a relationship between tax reform and tax amnesty, and that the prospect for fundamental tax reform creates a major opportunity to recover at least some of the billions in tax revenue from prior years that will not otherwise be collected.

In my view, perhaps the most crucial measure of the success of any tax reform proposal is its impact on future compliance. If tax reform truly simplifies the tax code and makes it fairer, than the slide in voluntary compliance levels

will be reversed. Even a proposal designed to be revenue-neutral at current compliance levels could produce a substantial growth in tax receipts as voluntary compliance levels improve. Each 1% growth in compliance produces $5 billion in additional annual revenues, according to the IRS, so the potential revenue gains are significant.

Tax reform only produces these revenue windfalls in the future, however; it does nothing about collecting even some part of the billions and billions of dollars that the tax system failed to collect in the past. Neither will increased collection efforts by the service result in the payments of the vast majority of these outstanding delinquent balances. The IRS has stated that it would take an additional 200,000 agents or even more to track down and collect a significant part of the "tax gap", and that kind of police-state option is something that no one, including the IRS, wants.

That does not mean, though, that there is no way to recover any part of the "tax gap" from prior years. There is a mechanism that has been used successfully in a number of states, including Massachusetts and my own state of Illinois. That mechanism is known as tax amnesty.

Amnesty is a simple concept. It provides an opportunity for delinquent taxpayers to fully pay their overdue tax liability without being subject to criminal or civil prosecution. Fourteen states -- Illinois, Massachusetts, New York, Connecticut, Kansas, Alabama, Texas, Missouri, Minnesota, North Dakota, New Mexico, Arizona, California, and Idaho -- have already enacted, and in many cases, implemented tax amnesty programs. At least four additional states -- South Carolina, Wisconsin, Colorado, and Oregon, have amnesty programs under active consideration.

The state amnesty programs are different in scope, extent, and many other particulars, but the amnesties that have been implemented seem to have at least one thing in common: they were successful. They all resulted in taxpayers coming forward to pay overdue taxes who would probably have not otherwise done so.

Senator Rocks testimony details the Illinois experience for you. Let me just say by way of summary that Illinois collected approximately $150 million, far more than the $20 million the State Department of Revenue originally estimated. Massachusetts collected over $72 million, and in California, over 130,000 delinquent taxpayers came forward.

The state programs were not giveaways. They did not reward tax cheaters. The state programs were balanced; they increased compliance efforts and penalties for noncompliance after the amnesty period. The state programs resulted in placing additional taxpayers back on the rolls, and in

additional tax collections that the states would not otherwise have received.

While I recognize the enormous differences between the state and national tax systems, I believe a national tax amnesty program could be effective and ought to be considered. In January of this year, therefore, I introduced S. 203, the Federal Tax Amnesty Delinquent Act of 1985.

My bill establishes a six-month amnesty period, to begin on the July 1st after the bill is enacted. The amnesty period would cover all tax years through 1983 still subject to collection by the IRS -- and I understand that the Service, in some circumstances, can go back 7 years or more.

All taxpayers would be eligible for the amnesty with some limited exceptions: First, those involved with the IRS in administrative or judicial proceedings before the amnesty period begins; second, those under criminal investigation where the IRS has referred the matter to the Justice Department before the amnesty period begins; and third, those who make false or fraudulent representations in attempting to take advantage of the amnesty.

The amnesty itself would be simple and straightforward. It would include amnesty from criminal and civil penalties and from 50% of any interest penalty owed. It would, however, apply only to legal-source income. Taxes due on income resulting from criminal activity would not be covered by the amnesty.

All federal taxes would be included under the amnesty, not just the income tax.

The amnesty provisions are generous and provide a substantial incentive for taxpayers to take advantage of the amnesty period. However, the bill does not rely just on carrots; it also contains a couple of substantial sticks.

First, it increases all tax-related civil and criminal penalties, including money fines and jail terms, by 50%. The tougher penalties would apply to any tax year after 1984, and after the amnesty period, to any open tax year. Of course, the increased penalties would not apply to cases pending on the date of enactment where a judgement was entered before that date.

Second, the bill authorizes such funds as are necessary to add 3,000 additional revenue agents to the IRS, an increase of about 20% in the agent force. Adding agents can be extremely cost-effective, because each additional agent can bring in as much as twelve and one-half time his salary in additional tax revenue. In fact, the IRS has told me that

agents can bring in as much as forty times their salary, depending on where enforcement efforts are concentrated.

The bill also authorizes the funds the Treasury will need to administer and publicize the amnesty program. The state experience demonstrates that wide publicity can significantly enhance the effectiveness of an amnesty program.

I believe in the amnesty concept, but I recognize we need to analyze the potential impact of an amnesty on compliance very carefully before we act. As you may know, at the request of members of the House Ways and Means Committee, the Joint Tax Committee is currently analyzing the feasibility of a federal amnesty, and their report is currently scheduled to be ready in September.

In an article entitled "Tax Amnesties As A Tool For Revenue Administration", Professor John Mikesell of Indiana University sets out two priority objectives for tax administration:

1) Ensuring that the extent of underpayments is not serious from either a competitive -- where the cost of cheating is less than the cost of paying, even if caught - or an equity point of view, and

2) ensuring that other taxpayers are not tempted to cheat because others are successfully doing so.

Our current tax system is failing these tests. The "tax gap" is huge and continue to grow. Voluntary compliance continues to decline. The public is well-aware of the fact that large numbers of taxpayers are getting away with cheating.

He goes on to point out that the impact of an amnesty on the climate for voluntary compliance depends on whether the taxpayers believes the amnesty is a one-time event and whether the public believes evasion opportunities successful before amnesty will be successful after.

These principles provide a good framework for evaluating a potential federal tax amnesty program. I do not believe, however, the tax amnesty will either undermine tax administration objectives or the overall climate for voluntary compliance. Further, as I stated before, the prospect for comprehensive tax reform provides an unique opportunity to ensure the success of the amnesty.

Amnesty will not increase the extent of underpayments. As the state experience demonstrates, it will, in fact, add thousands of taxpayers to the rolls. Further, it will not adversely impact future tax collections. I am confident that vast majority of honest taxpayers will see a one-time amnesty

for what it is -- a demonstration of the extraordinary lengths the government is prepared to go to collect delinquent tax payments.

My bill will not reward delinquent taxpayers the Service already has uncovered. It will provide an incentive to come forward for those who otherwise would not be discovered. These taxpayers would have to pay their full delinquent amounts, and it is worth foregoing the penalties in order to get them to do so.

Tax reform adds to the prospects for the success of an amnesty. By closing loopholes, simplifying the code, and making our laws more equitable, it will reduce incentives to cheat in the future. It will also help improve compliance in the future because successful reform will mean less opportunities for tax evasion, and an increased likelihood of being caught for any future evasions.

Tax reform and tax amnesty therefore dovetail together well. Tax reform will improve future compliance. Tax amnesty will collect a significant part of past uncollected amounts. The net result will be a windfall for honest taxpayers, and an opportunity for basically honest people who have drifted in to tax evasion to return to full compliance with the law.

I know the IRS is opposed to tax amnesty, and is extremely concerned about its effect on future compliance. I respect the Service's opinion, but I believe this idea is worth a more serious look at the federal level than it has received so far.

Amnesties have worked at the state level. They have produced significant amounts of revenue. They have not seemed to undermine taxpayer compliance with the tax laws in the states, although, since most amnesties have been very recent, I will admit that it is too early to forecast long-term trends.

The same benefits can be achieved at the federal level. In fact, if the federal government is only as successful as the State of Illinois, the amnesty could raise between $10 and $15 billion for the federal Treasury, and perhaps even more. A balanced amnesty program with appropriate upgrading of enforcement provisions after the amnesty period could be much more desirable than the Internal Revenue Service now believes.

This hearing is the first step in what I hope will be a serious review of the desirability of tax amnesty at the federal level. I look forward to working with you, Mr. Chairman, and the rest of my colleagues to see that the amnesty idea gets the kind of careful, considered review that it deserves. I am confident that such a review will discover the real merit behind this idea.

I want to thank you once again, Mr. Chairman, for providing me this opportunity this morning. I'd also like to thank the witnesses from the State of Massachusetts and the National Taxpayers's Union for their interest and participation.

TESTIMONY
ON THE BILL
S. 203

THE FEDERAL TAX DELINQUENCY ACT OF 1985

Presented to the
Subcommittee on Taxation and Debt Management
of the Senate Finance Committee

by
The Honorable Philip J. Rock
President, Illinois Senate

June 24, 1985

Mr. Chairman and members of the subcommittee: my name is Philip J. Rock, President of the Illinois Senate, and I am the author of the Illinois Tax Amnesty Program.

I am pleased to appear before your distinguished subcommittee to discuss tax amnesty programs along with my friend and colleague Senator Alan Dixon.

My remarks will focus on: (1) the benefits of an amnesty program, (2) the details of Illinois' program, and (3) how these relate to the topic of this hearing, S.203, the Federal Tax Delinquency Act of 1985.

Twelve states including Illinois have adopted tax amnesty programs with two common features: (1) increased enforcement for tax evasion and (2) increased public awareness campaigns.

These two features, often coupled with increased appropriations for revenue collection officials, convinced people in each of these states that the government was serious about equity and the need for taxes to be paid.

Of all these efforts, Illinois' program has been the most successful to date in terms of revenues collected. Our success came about because there was more public information and debate about the program before it was implemented and, much more importantly in my view, because the public became convinced that the government of Illinois was serious about overseeing the public's tax laws.

The permanent effects of these enactments were new sanctions and new public awareness. The short-term amnesty period and compromise features called for in these enactments were in fact necessary to provide a fair and reasonable transition into the new and very serious penalty law to be applied to future tax evaders.

Reasonable transition rules are, of course, typical requirements of legislative acts. In this case, the amnesty transition handled the problem of enacting new sanctioning laws which would have applied as new tax evasion cases were brought forward. (The new penalty sums could be quite substantial if it were possible to actually pursue all the tax evasion cases that exist now but which are not yet identified.) The lack of a transition period would also have discouraged people from ever coming forward under the new sanctions and we probably would have lost these people forever.

Not only is the transition period necessary from the standpoint of legality and fairness, but the transition program can provide some very good practical results --

(1) people are encouraged to join or rejoin the rolls of responsible citizens and to leave their status as outsiders and non-contributors, and

(2) current and future revenues are increased by collections from usually unidentifiable cases and from the new increase in the actual number of filers.

Before I go on to comment on S.203, let me quickly detail for you the major provisions of the Illinois Tax Amnesty Program which was enacted in July of 1984. It contained two basic features: (1) changes in penalties and sanctions and (2) a transition amnesty period.

(1) Changes in Penalties and Criminal Sanctions

- o a permanent 50% increase in all tax evasion monetary penalties
- o a permanent one level penalty increase in criminal actions

(2) Transition Amnesty Period

- o covered all state tax laws
- o covered natural persons and businesses
- o covered knowing failures and inadvertent failures to pay
- o provided for a two month period for filing
- o restricted the revenue agency from seeking further prosecution of those who finish the program
- o expressed compromise and settlement terms providing reduced interest and no penalty charges
- o no principal tax debts were statutorially reduced
- o maintained prosecutorial settlement discretion for equitable or practical reasons
- o required to share information with the federal IRS

The program was designed to meet the two criticisms brought up in debate.

People objected to the setting of a precedent of amnesty to tax evaders. These people did not understand the need for a transition rule to the new sanctions nor did they understand that the revenue agency and the Attorney General have always practiced compromise and settlement discretion, which is a form of ad hoc amnesty.

The amnesty period called for in the program promotes a voluntary act while setting, for a brief period, a public policy on the use of existing discretion.

The success of the program demonstrates that people would not come forward voluntarily if the revenue agency would have simply set such a policy on its own. Furthermore, the revenue agency already needed legislative action to provide sufficient resources for a public information campaign and to handle the increased costs of any new claims.

Legislation was also necessary to convince people of the seriousness of our commitment to the tax laws. The agency cannot by administrative fiat expand its resources or make up a new sanctioning system. A reliance on the status quo, that is, existing resources, prosecutorial discretion and existing sanctioning rules, simply could not have done the job.

The revenue agency felt that the future sanctions would be too high. Of course, the act did not change the basic discretion currently held by the agency or the Attorney General. The sanctioning rules are actually upper limits on the government's actions against those judged to have violated the tax laws. But like all classification schemes it is designed to be a deterrent too.

It was the intent of the legislature to make this very statement -- that our tax laws are important, as important as our environmental, commercial and spending laws. The new sanctions have proven themselves, in my view, to have encouraged people to come forward in the transition to avoid the possibility of more serious penalties should they be identified and prosecuted in the future.

Let me also emphasize that amnesty was not open to those in administrative or judicial proceedings at the time nor was it open to anyone to avoid any laws applicable to illegal gains from criminal acts.

Participation in the Illinois tax amnesty program was fairly diverse. Requests for amnesty were received from individuals in 49 states and 5 foreign countries and, in some cases, dated as far back as 1960 (for sales tax). The amounts paid also varied considerably. Two corporations requesting amnesty for corporate income taxes submitted payments of more than $7 million each, while one individual income tax amnesty applicant paid 37 cents.

Our amnesty program attracted over 27,000 businesses and individuals. The majority of applications (56%) came from individual income tax payers, who paid an average of $511. Business income tax accounts, which represented only 15% of the applications, accounted for 73% of the payments. The average payment in that sector was $32,085. Nearly half of the amnesty dollars were paid by 45 companies, each of which paid a half million dollars or more.

ILLINOIS AMNESTY PROGRAM PARTICIPANTS

	Number of Applications	% of Total Applications	Amount of Payments (in millions)	% of Total Payments	Average Payment	Number of New Filers
Individual income tax	15,287	56%	$6.1	4%	$511	5,060
Business income tax	4,095	15%	111.2	73%	$32,085	459
Sales tax payers	3,276	12%	30.4	20%	$12,600	472
Withholding agents	3,822	14%	3.0	2%	$970	364
Miscellaneous	818	3%	1.7	1%	-	113
TOTAL	27,298	100%	152.4	100%		6,468

Source: Illinois Department of Revenue

As you can see by the figures in the table, we had a successful effort -- $154 million in cash receipts and increasing compliance in regular collections, despite the fact our economy lags behind that of the nation and our unemployment levels remain high.

Our program was even more successful than these collection figures show because it permitted us to appropriate large sums for public elementary and secondary schools ($95 million) and to meet our obligations to help finance local government services ($35 million). Since we dedicated these collections to a special fund, other public services will also benefit from the remaining $24 million which is unallocated and from increased revenues in the future.

Senator Dixon's bill resembles the Illinois program in many respects and I think only the magnitude of the expected outcomes would be different from our successful efforts. In fact, a national effort should be relatively more successful as it does not face some of the impediments and controversies our program faced and also covers a larger tax system including social security and federal excise taxes.

First, Illinois could not guarantee federal immunities or federal settlement terms to people so it is likely that many who were also evading federal law did not come forward. You would not face this problem (though I expect you to consider sharing any new filing information with the states). Second, our effective tax rates are some of the lowest in the nation while, in comparison, the national revenue system causes more to be gained and lost which is an incentive for people to come forward. Third, S.203 proposes a six month transition period, a reasonable time period in light of the administrative claim demands at the federal level, and this should also permit more people to come forward. And finally, a public awareness campaign at the national level now would have the benefit of piggybacking on recent state efforts and should in fact, because of its scope, be more successful.

In summary, let me reemphasize the lessons of our program:

- we simply do not have the resources to identify all the non-filers and evaders or to pursue endless administrative and judicial recovery actions,

- we must improve awareness of the public's tax laws and our seriousness about enforcing them,

- we need to encourage non-filers and evaders to come forward voluntarily and join the rest of us in shouldering our public responsibilities, and

- in moving forward to a more convincing system, we can act reasonably to promote transition or amnesty periods with less cost and more coverage than the current ad hoc litigating approach we now follow, and with the good practical results of raising needed revenues while promoting voluntary compliance.

I commend my colleague, Senator Dixon, for promoting this practical concept before the U.S. Congress and I urge you to pass the measure. I think that as it has proven itself to be a good idea at the state level, it should prove even more successful at the national level, and I offer my unqualified support for Senator Dixon's initiative.

Thank you, Mr. Chairman, and members of the subcommittee for providing me with the opportunity to present testimony today. I hope my remarks have been helpful and I will be happy to answer any question you may have.

Senator DIXON. We are here today to talk about tax amnesty. The issue of amnesty arises because, as I am sure the chairman knows, there is substantial and growing noncompliance with our Nation's tax laws. In 1981, the most recent year for which comprehensive data is available, Federal tax collections were more than $81 billion below what they would have been if every taxpayer had paid his or her legal tax obligations. Unfortunately, 1981 is not an unusual year. The Treasury Department anticipates a tax gap, the difference between the amount of tax that would be collected with 100 percent compliance with our Nation's tax laws and what it actually collected, of $92 billion or more in 1985, and believes that level could rise to between $386 billion to $473 billion by the turn of the century.

According to a survey commissioned by the IRS last year, the public is well aware of the compliance problems. A majority of Americans believe that tax cheating is on the rise, and that 25 percent of taxpayers cheat. Roughly 20 percent, Mr. Chairman, admit cheating on their own tax returns. The survey found that the major cause of the rise in noncompliance seemed to be that most Americans believe the tax system is unfair and inequitable, a matter, of course, that your own committee is reviewing at this time.

An appalling 80 percent believe the present tax system benefits the rich and is unfair to the average working person. And two out of three believe they pay more than their fair share.

The fundamental tax reform proposal now before the Congress is an attempt to deal with the inter-related problems of fairness, complexity and noncompliance, but tax reform looks only to the future; it does nothing about collecting unpaid taxes currently outstanding. Only tax amnesty, may I stress, Mr. Chairman, will do that.

Now amnesty is a simple concept. It provides an opportunity for delinquent taxpayers to fully pay their overdue tax liability without being subject to criminal or civil prosecution. Fourteen States—and you have named them, Mr. Chairman—including my own, have already enacted, and in many cases implemented, tax amnesty programs. At least four additional States have amnesty programs under active consideration.

The State amnesty programs are different in scope, extent, and many other particulars, but the amnesties that have been implemented seem to have at least one thing in common, Mr. Chairman. They were successful. They all resulted in taxpayers coming forward to pay overdue taxes who would probably have not otherwise done so.

Senator Rock's testimony, Mr. Chairman, details the Illinois experience. And that, of course, will be in the record.

Let me just say by a way of summary that Illinois collected approximately $150 million, far more than the $20 million the State department of revenue originally estimated. And may I depart from my text there, Mr. Chairman, to say this to you on a personal basis. I recognize that the IRS is suggesting that they are opposed to this idea. You should know that in our own State of Illinois the Illinois Department of Revenue opposed this idea; suggested that the maximum amount of money that could be brought in would be $20 million, but to date the Illinois experience is that $150 million,

which has been usefully employed for the education of our children, has been brought into the State treasury.

The State programs were not giveaways. They did not reward tax cheaters. The State programs were balanced. They increased compliance efforts. I want to stress that. They increased compliance efforts. And penalties for noncompliance after the amnesty period. The State programs resulted in placing additional taxpayers back on the rolls. And I want to stress that: Placed additional taxpayers back on the rolls, and, in addition, tax collections that the State would not otherwise have received were received.

While I recognize the enormous differences between the State and national tax system, I honestly believe a national tax amnesty program could be effective and ought to be considered in January of this year. Therefore, I introduced S. 203. My bill establishes the 6-month amnesty period to begin on the July 1st after the bill is enacted. The amnesty period would cover all tax years through 1983 still subject to collection by the IRS. And I understand the Service in some circumstances can go back seven years or more. All taxpayers would be eligible for the amnesty, with some limited exceptions.

First, those involved with the IRS in administrative or judicial proceedings before the amnesty period begins. Second, those under criminal investigation where the IRS has referred the matter to the Justice Department before the amnesty period begins. And, third, those who make false or fraudulent representations in attempting to take advantage of the amnesty.

The amnesty itself would be simple and straightforward. It would include amnesty from both criminal and civil penalties and from 50 percent of any interest penalty owed. Now that was the Illinois plan. It would, however, apply only to legal source income—taxes dues on income resulting from criminal activity would not be covered by the amnesty. The amnesty provisions are generous, and they provide a substantial incentive for taxpayers to take advantage of the amnesty period.

However, the bill does not rely just on carrots, Mr. Chairman. It also contains a couple of substantial sticks. First, it increases all tax-related civil and criminal penalties, including money fines and jail term by 50 percent. The tougher penalties would apply to any tax year after 1984 and after the amnesty period to any open tax year. Second, the bill authorizes such funds as are necessary to add 3,000 additional revenue agents to the Internal Revenue Service, an increase of about 20 percent in the agent force. The bill also authorizes the funds the Treasury will need to administer and to publicize the amnesty program.

Now this is important, Mr. Chairman, because the State experience demonstrates that wide publicity can significantly enhance the effectiveness of an amnesty program.

I believe in the amnesty concept, but I recognize we need to analyze the potential impact of an amnesty on compliance very carefully before the Congress acts. As you may know, at the request of members of the House Ways and Means Committee, the Joint Tax Committee is currently analyzing the feasibility of a Federal amnesty. And their report is currently scheduled to be ready in September of this year.

The impact of an amnesty on the climate for voluntary compliance depends on whether the taxpayer believes the amnesty is a one-time event. Now that's important. And whether the public believes evasion opportunities successful before amnesty will be successful after.

These principles provide a good framework for evaluating the potential Federal tax amnesty program. I do not believe, however, that amnesty will either undermind tax administration objectives or the overall climate for voluntary compliance. Amnesty will not increase the extent of underpayments.

As the State experience demonstrates, it will, in fact, add thousands of taxpayers to the rolls. Further, it will not adversely impact future tax collections. I am confident the vast majority of honest taxpayers will see a one-time amnesty for what it really is—a demonstration of the extraordinary lengths the Government is prepared to go to collect delinquent tax payments.

My bill will not reward delinquent taxpayers the Service already has uncovered. It will provide an incentive to come forward for those who otherwise would not be discovered.

These taxpayers would have to pay their full delinquent amounts, and it is worth foregoing the penalties in order to get them to do so.

Tax reform adds to the prospects for the success of an amnesty. By closing loopholes, simplifying the code, and making our tax laws more equitable, it will reduce incentive to cheat in the future. It will also help improve compliance in the future because successful reform will mean less opportunities for tax evasion and an increased likelihood of being caught for any future evasions.

In conclusion, tax reform and tax amnesty, therefore, dovetail together well. Tax reform will improve future compliance. Tax amnesty will collect a significant part of past, uncollected amounts. The net result will be a windfall for honest taxpayers and an opportunity for basically honest people who have drifted into tax evasion to return to full compliance with the law. If the Federal Government is only as successful as my own State of Illinois, Mr. Chairman, the amnesty should raise between $10 and $15 billion for the Federal Treasury. And I honestly believe, Mr. Chairman, it will raise very much more than that.

This hearing is the first step in what I hope will be a serious review of the desirability of tax amnesty at the Federal level. I look forward to working with you, Mr. Chairman, and the rest of my colleagues to see that the amnesty idea gets a kind of careful, considered review that it deserves. I'm confident that such a review will discover the real merits behind this idea.

I want to thank you once again, Mr. Chairman, for providing me this opportunity this morning. I'd also like to thank the witnesses from the States of Massachusetts and Illinois and the National Taxpayers Union for their interest and participation. And, finally, I hope the chairman will honor me by including my complete statement in the hearing record along with that of Senator Rock, the distinguished President of the Illinois State Senate.

Senator CHAFEE. Well, that was an excellent statement. And as I mentioned before, we will put your full statement and that of Senator Rock in the record.

I notice that my distinguished colleague from New York is here. And if he has an opening statement, now would be a good time to deliver it.

Senator MOYNIHAN. Mr. Chairman, thank you.

I just wanted to welcome our colleague, Senator Dixon. I listened with great attention to his remarks. I've been able to read the remarks of Senator Rock, and I will just say in advance that Senator Dixon is addressing a very real problem, and has a specific proposal.

I have been on this committee for over 8 years. I'm beginning to wonder why is it that the Treasury has difficulty describing the nature of the problem that compliance presents. We don't know at what level the problem begins—whether it's an administrative problem or a problem of anti-social behavior. We don't know to what extent it's a problem of the complexity of the tax laws. Treasury has not developed a very good theory of their case. And they don't have much information in round numbers that would tell us why we are going to lose $92 billion this year.

Thank you, Mr. Chairman.

Senator DIXON. May I say to my colleague, the distinguished senior Senator from New York, that I think one of the simple explanations for part of it simply is that the number of IRS agents necessary to adequately enforce compliance continues to be too small against the whole problem. And my records here somewhere would show, may I say to the Chairman, that we audited about 50 percent less returns than we used to audit just for one example of one of the practical problems that we face with respect to this.

I mentioned in here that the stick involved is a 50-percent increase in penalties both civil and criminal after the amnesty period, plus 3,000 additional IRS agents. We have found statistically that those IRS agents, believe it or not, bring in about 12½ times their annual salary. Some very aggressive ones, as much as 40 times their annual salary. So, obviously, those IRS agents are a good investment for the Government.

Senator CHAFEE. Well, thank you on that subject.

I just looked here under the number of IRS employees. In 1981, there were 23,300. In 1984, there were 25,493. So we have been increasing the number of agents. In the 1983 budget, we increased them by 1,000.

And I have a feeling that in the 1986 budget we have a further increase. Somebody from IRS is going to be testifying so I will ask them about that.

Let me ask you a few questions, Senator, if I might. What about the sharing of information? You don't go into that. Do you think that should be done or shouldn't be done? In other words, if we went into this program, should we share the IRS information with the States?

Senator DIXON. Well, that was an issue in Illinois. Illinois, to cite the example of our own experience, did not stop sharing the information with the IRS during the entire amnesty program. Some had said that would be a very serious problem to having people come forward. Yet over 27,000 individuals and businesses did come forward, Mr. Chairman. The Illinois income tax rates are very low, may I say. For every taxpayer, Federal tax liabilities are far great-

er than State tax liabilities. But delinquent taxpayers, therefore, have an even stronger rationale to participate in a national amnesty even though information would be shared with the States. So I think that that is not the problem that one would suppose it would be.

Senator CHAFEE. As you know, I think it's widely viewed, that Federal tax collection system for Federal taxes is more stringent, more sophisticated than State tax collection. In view of that, would you think that the amount that we might bring in on the Federal level would be considerably less than on the State level? For example, in my State, they are getting rid of the gift tax because, frankly, nobody ever pays the gift tax on the State level.

Senator DIXON. Yes.

Senator CHAFEE. It's not understood. People just don't pay it. Right or wrong, that's a fact. Now they are getting rid of it.

Using the Federal gift tax as an example, do you think that because of the difference in the collection systems there is more money available out there on the State level? Is Illinois considered a stringent collector of its taxes?

Senator DIXON. May I first say to that, Mr. Chairman, yes, we have a very good reputation for enforcing our tax laws. And our income tax law is predicated on a percentage of payments of the Federal tax. And so that compliance is rather high in our State.

But, of course, your point is well taken that Federal tax compliance efforts are more stringent than those of the respective States. But the truth is, Mr. Chairman, that the Federal Government will not collect over $90 billion of taxes legally owed in this year—one dollar out of every five will not be collected. If an amnesty allowed us to recover only 10 or 15 percent of delinquent taxes, and considering that amnesty would apply to not just one tax year but to all tax years that are open, the amounts that could be brought in, I think, would be very substantial. Further, the amnesty could be used to signal a tougher enforcement policy. And the perception that enforcement efforts were being toughened could help produce better voluntary compliance on a long-term basis, adding additional Federal revenues every year. So that while I think your point is a very valid one, I do honestly believe that it would yield very substantial sums of money.

Senator CHAFEE. Well, I think one of your good points was that you bring people onto the rolls that might not have been there before, although in your testimony you indicated that most of the money you collected was from those who were paying rather than those who were not filing at all.

Senator DIXON. That's right.

Senator CHAFEE. A couple of questions on equity. The people who pay, what do they think of letting somebody come on the rolls later or receive amnesty? And indeed you waive all penalties, and you waive 50 percent of the interest. What do the people who pay, the good guys in all this, what do they think when some cheater, in effect, comes on without paying the penalty and without paying the interest? The interest, it seems to me, would be quite disturbing to some. He's paid his money. His money has gone to the Federal Government. Somebody else has had use of their money and then pays up but only half of the interest.

Senator DIXON. Well, that was a major part of the debate in Illinois, Mr. Chairman. Our findings are, though, that honest taxpayers as the Internal Revenue Service's own polls show, clearly know that tax cheating is on the rise, and that cheaters are getting away with it. Taxpayers recognize that the amnesty brings in revenue that is otherwise not collected. And that it's better to get at least the basic tax owed from delinquents than it is to preserve the theoretical opportunity to collect penalties that everyone knows will never actually be collected.

And in my own State, Mr. Chairman, this program has proved to be very popular. The press from the very liberal to the very conservative press has been generous in its praise of the program, which has been a very effectively administered program in my State. And, incidentally, when I go around my State and I speak to civic groups, chambers of commerce, Rotary, Kiwanis, groups of that type, labor organizations, I find support for this program to be almost unanimous. I must represent to you and the senior Senator from New York State, that I have never found a program after its application as universally accepted and supported in my State as this one. And to the extent that people get up in meetings and say I've always paid mine, at first I didn't like this idea much, but I'm delighted that we got this money; I'm delighted that new people came on the rolls; I'm delighted that we strengthened the law for the future, and I'm just quite amazed at the public support for this in my State.

May I say this: That originally—and I would like to say that President Phil Rock, the president of the Illinois State Senate, is a distinguished leader in our State and has been the president of the State senate for many years—when he introduced this program, there was general opposition by the business groups in the State, by news media, and at first by the State administration. I had indicated earlier the IRS said in our State—rather the Department of Revenue—said it will only bring in about $20 million and it will affect adversely compliance in the future.

To make a long story short, there was a lengthy dialog about it, a long fight about it. It finally passed. The Governor, at first, I think with some reluctance signed it. The end result has been that it improves compliance, it brought in $150 million, may I say to my friend from New York, all of which has been spent for education in our State. It has been extremely popular. And all people now like to take their share of the credit for it.

And it just is an unusual experience. My State, as both of you distinguished members know, is a kind of an evenly divided State politically, kind of a swing State in elections and so forth, yet both parties like what has happened. I said generally the press does. Business and labor interests in the State do so. It has had a remarkably good result with excellent public acceptance.

And I might say that Senator Carey, who represents, as you know, the State of Massachusetts, says that they had the same experience in their State. He wishes he could be here this morning. But he supports enthusiastically this concept as well.

Senator CHAFEE. It's a one-shot deal, isn't it?

Senator DIXON. Yes.

And that's the secret. We would have to make that very strongly understood. In my State, they spent quite a little amount of money, Mr. Chairman, on publicity, and made it clearly understood—look, this isn't going to happen again next year. It isn't going to happen again in this decade. It isn't going to happen again in your lifetime. This is your one chance to fess up and pay up and come on in and clean your shirts, and people became believers. And you don't hear anybody saying, now, well, I'm not going to pay because in 2 more years I know they are going to do it again. You know, that's important. I think I stressed that in my statement, and I do want to stress it. We would have to make it understood in the country at large that this is a one-shot deal.

Senator CHAFEE. Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, I must say I'm very impressed with Senator Dixon's arguments. We are going to have a report from the Joint Tax Committee, I believe, in September on this.

Senator CHAFEE. He mentioned that in his testimony.

Senator DIXON. The Ways and Means Committee, may I say to my distinguished friend from the State of New York, we will have a report in September on this question.

Senator MOYNIHAN. I would like to make this suggestion, Mr. Chairman.

I would like to suggest that the Treasury, as an organization in the Government, respond to this question in a way different from other departments. There is a certain abstraction in their comments to date. They come in and say to us that the rate of noncompliance is growing and therefore you had better change the tax law. It never occurs to them that if the rate of non-compliance is growing, they may not be doing their job right. If this law isn't being enforced, the administrators of the law must be held accountable at some level. They don't seem to consider themselves accountable. You never hear any internal criticism. They are a first-rate organization. But we don't hear any internal criticism regarding the compliance problem.

And they don't do the kind of studies that should be done. I guess I have spent half my life reading accounts of why people go on welfare or go off welfare and things like that. Why people pay taxes or don't pay taxes, as far as I can tell, is an unexplored subject.

The tax administrative and enforcement divisions of Treasury are sort of separated out—over in IRS. If it turns out that the Secretary of Labor is not enforcing the Fair Labor Standard Act, people will say to him, well, why don't you resign. Just that. It never would occur that this might happen in Treasury. Nor am I suggesting that it should.

But the issue of compliance is an issue that this subcommittee and our committee rarely looks at beyond asking "Should we have a few more agents, a few less."

And I want to thank Mr. Dixon for bringing it before us as a proposition. If you don't like this proposition, you have to be able to say why.

Senator DIXON. Well, I want to thank my distinguished friend from New York State whose contributions here are so well known

and say only this in response to both the distinguished senior Senator from New York and the chairman. The last year that all the information is available about is the year 1981, Mr. Chairman. And in that year, we had an on and off budget deficit of $79 billion. But the amount owed was $81 billion. You could have actually had a surplus in that year, as recently as 1981, with full compliance.

Senator CHAFEE. Did Illinois try this in 1981?

Senator DIXON. Illinois tried this in—we had a legislative amnesty last year, 1984.

Senator CHAFEE. Then I'm a little mixed up. When did you do your amnesty in Illinois?

Senator DIXON. Last year.

Senator CHAFEE. That you are talking about.

Senator DIXON. Last year.

Senator CHAFEE. This was the Rock plan.

Senator DIXON. That is correct.

Senator CHAFEE. I had a suggestion that you tried something previously in 1981.

Senator DIXON. We tried administrative amnesty but it did not work very well. And then they had a legislative amnesty in 1984, which worked immensely well.

Senator CHAFEE. I'm not sure I know the difference between an administrative amnesty and a legislative amnesty.

Senator DIXON. Well, a number of states have had tax amnesty without legislation or anything of the kind where they just make it known publicly that folks will come in during some open period to their department and that they will be given amnesty. And that has not worked very well anywhere.

As an example, Missouri just recently did one. It brought in some money. There is a general feeling—and I want to make sure I'm stating this to you correctly because I want to turn to my aide for that—but I believe I'm correct when I make that statement.

For instance, the two noted amnesty programs that worked very well—I want my aide to correct me if he believes I'm at all in the——

Senator CHAFEE. Why don't you bring him up to the desk?

Senator DIXON. This is Bill Mattea. I think that perhaps he would be known to my distinguished friends on this panel. Mr. Mattea has been with me since I've been in the Senate, and part of that time served with the distinguished Senator from Illinois who preceded me here, Senator Stevenson, for 10 years. So he is well qualified in this area.

Massachusetts and Illinois have had the two most successful amnesty programs—correct me if I am wrong, Bill. Both were legislative amnesty programs that had excellent yield, good results, and have increased compliance. With few exceptions, most others were done administratively and have not been nearly as successful.

Illinois and Massachusetts have been the ones that have been cited as the excellent experiences of the country. Both were done essentially by legislation, like mine here, with a carrot, which lets you come in, the window is open for a period of time—in this bill six months where you come in in—and civil penalties are forgiven and interest is reduced by 50 percent, or some like amount, and then a stick with additional agents for compliance in the future,

increase the penalties massively, as we did in this bill, 50 percent for criminal and civil and so forth.

Senator CHAFEE. You mean in Illinois you did? In Illinois you did all this?

Senator DIXON. Yes, sir; we did, Mr. Chairman.

Senator CHAFEE. With the penalties?

Senator DIXON. Yes, sir; we did, Mr. Chairman.

Senator CHAFEE. Now what about the equity of saying somebody who hasn't been caught can come in and get the amnesty but somebody who the State has started investigating or the Federal Government has started investigating, that person cannot get the amnesty.

Senator DIXON. Well, that has been——

Senator CHAFEE. Why should there be that difference?

Senator DIXON. Well, in our state we felt that the focus of an amnesty program should be to provide incentive to delinquent taxpayers to come forward who would not otherwise be identified unless the IRS put literally hundreds of thousands of agents into the field, creating a state that no one, including the Service, wants.

However, it seems to me to be unwise to change the penalties for those already identified by the Service and who are currently in administrative or judicial proceedings already. I think that the suggestion to provide amnesty on an across the board basis is not entirely without merit. I think this issue deserves further study. In our state, this is the way we did it and it worked well, and I'm committed to the idea that that result has been one that has been well received in my state.

Senator CHAFEE. All right. Well, thank you very much, Senator. We appreciate your testimony. And, obvicusly, this is an intriguing suggestion. When this first came up, I suggested it to our state. We've heard about it mostly from Massachusetts, which tried it in 1983. Our people chose not to do it. But that's no reason why the Federal Government shouldn't do it.

Thank you.

Senator DIXON. I certainly thank the Chairman.

Senator CHAFEE. Thank you very much.

Now the next witnesses are Mr. Thomas Herman, First Deputy Commissioner, Massachusetts Department of Revenue; and Mr. David Keating, Executive Vice President, The National Taxpayers Union, who is accompanied, I understand, by Mr. Jack Warren Wade.

Why don't you all three come up.

All right. Mr. Herman, we welcome you here and look forward to your testimony.

STATEMENT OF THOMAS D. HERMAN, FIRST DEPUTY COMMISSIONER, MASSACHUSETTS DEPARTMENT OF REVENUE, BOSTON, MA

Mr. HERMAN. Thank you very much, Mr. Chairman. It's an honor to be here. And it's an honor also to represent Governor Michael Dukakis before this subcommittee in support of Senator Dixon's bill calling for a federal tax amnesty. Only poor health and

doctor's orders have prevented Commissioner Ira Jackson from being here today also.

We in Massachusetts weren't the first state to have an amnesty program, nor, as you have discussed already this morning, will we be the last. Tax amnesty——

Senator CHAFEE. What are the dates of your program, and how long did it last, Mr. Herman?

Mr. HERMAN. Mr. Chairman, our program was a 3-month program and extended from October 1983 through January 1984.

Senator CHAFEE. Thank you.

Mr. HERMAN. We have collected through that amnesty program over $80 million. That's an estimated 37 to 1 return on every dollar we invested on special costs for the amnesty program. If comparable success were achieved at the federal level, Mr. Chairman, we estimate that almost $10 billion could be collected. And I understand this morning Senator Dixon gave another figure. Figures can be a little bit above that, little bit below that, but extrapolating from Massachusetts' experience, we believe $10 billion could be collected federally.

In Massachusetts, some 50,000 individuals and businesses came forward to clear up past tax liabilities and wipe the slate clean under amnesty. If that experience were replicated at the federal level, you might expect 3 million taxpayers to take advantage of the program Senator Dixon has proposed in Senate 203.

One other point should be made in trying to assess the potential for a federal amnesty based on our results. A number of taxpayers and accountants and lawyers representing them have written to us to tell them that they or their clients would have paid up under amnesty, but they did not want their names shared with the IRS.

One such letter, for instance, states that if the IRS adopts an amnesty program, 'I think it's safe to say that five times as many people would participate if they knew they could pay off their back Federal taxes without fear of punishment for their past indiscretions."

Senator CHAFEE. In other words, in your case, you did share it with the IRS? But the thing is you would have gotten more people if you hadn't shared.

Mr. HERMAN. We believe that to be true, Mr. Chairman. In our case, pursuant to a federal-state exchange agreement, we shared upon the request of the Internal Revenue Service certain information. And I might add we made that—we put anybody applying for amnesty on notice that we might do that if we were asked.

Senator CHAFEE. Now what did you do about those who were under proceedings at the time you gave your amnesty, either administrative, civil or criminal?

Mr. HERMAN. Our amnesty was not available to taxpayers subject to ongoing criminal prosecution or court proceeding. Cases which had been referred by our office to the State Attorney General's office or another prosecutor, those cases were not eligible for amnesty.

Senator CHAFEE. As the proceeding was to have been started? In other words, actually filed? Where was the border line?

Mr. HERMAN. Similar to the proceeding which is suggested in Senate 203. That's 7206(c)(2), I believe, which means once the case

has left the Internal Revenue Service or in Massachusetts the State Department of Revenue, once it has been referred to the Attorney General, that case is not subject to amnesty. That taxpayer cannot take advantage of that.

Senator CHAFEE. Was that a good provision, in your judgment?

Mr. HERMAN. In our judgment, that's a very good provision. On the other hand, whether or not a taxpayer was delinquent and on the books or was, for instance, a non-filer, an under-reporter, an over-deducter, all of those people were eligible in Massachusetts for amnesty.

Senator CHAFEE. What did you do about penalties? What did amnesty mean? No penalties, no interest, no anything?

Mr. HERMAN. In Massachusetts, interest had to be paid, the principal tax had to be paid, the penalty was waived.

Senator CHAFEE. As you know, in Senator Dixon's bill, you only pay half the interest.

Mr. HERMAN. I understand that Senator Dixon's bill proposes that 50 percent of the interest would be waived.

Senator CHAFEE. But in your experience you had to pay 100 percent.

Mr. HERMAN. In Massachusetts, our experience was all tax, all interest.

Most tax administrators will tell you that full and voluntary disclosure of past tax liabilities won't land you in jail. In fact, criminal cases, as we have just discussed, are generally precluded. Even penalties are frequently waived.

And I might add, Mr. Chairman, last year the Internal Revenue Service abated $2 billion worth of penalties as part of its standard operating procedures. But most taxpayers just don't see it that way. They know they have fallen into bad tax habits for a number of reasons, some of them understandable, and they don't believe there is a second chance to be had.

Changing perceptions means changing behavior. And amnesty is just one small element of the effort we have undertaken in Massachusetts to change public attitudes about tax evasion. People need to understand that the enemy is not the tax collector, but the tax evader. That honest taxpayers are being ripped off, if you will, by a minority of deadbeats and cheats. That tax evasion is not a harmless and socially accepted lark, but a serious crime, a crime with real victims.

Mr. Chairman, preparation for amnesty began in Massachusetts almost 7 months before the program was officially started. Governor Dukakis and Commissioner Jackson were determined to crack down on both tax delinquents and evaders. We gambled on the bold strategy that sought to balance a progressive state budget with revenues from better collection and tougher enforcement of existing taxes rather than the imposition of new taxes or higher rates.

The Governor felt that the honest, hardworking men and women of Massachusetts, the vast majority of our citizens, were already paying enough. He also recognized that if Massachusetts is to maintain its healthy, competitive economy, taxes need not and must not be raised. And the key to tax rate stability, we believe, was to go after the estimated 15 percent of our potential revenue being lost to evaders and delinquents.

Senator CHAFEE. Mr. Herman, your entire statement will go into the record.

Why don't you stress the particular points you want to make.

By the way, was this legislative or was this an administrative amnesty?

Mr. HERMAN. Mr. Chairman, it was a legislative amnesty, and it was part of a larger program which we call our "revenue enforcement and protection program," which we feel is the key to any success in cracking down successfully on tax evasion.

And if I may have just a couple of minutes to describe the other part of the program, of which amnesty was a part, which we call the "Revenue Enforcement and Protection Act." I think it might be instructive to you and the rest of the committee.

Under REAP—and this is again in the nature of the carrot and stick formula, which Senator Dixon was discussing—under REAP, tax evasion was made a felony. Another REAP initiative gave us the power to revoke or refuse to renew State or local government licenses and contracts when individuals or businesses hadn't paid their taxes. A third REAP provision allowed us to contract out to private collection agencies to act on long-standing or delinquent accounts, similar to what the Federal Government now does with student education loans. In preparation for the amnesty program, as authorized as a part of REAP—and this is another important point—we conducted a carefully orchestrated seizure drive, hitting seriously delinquent businesses. We brought out major tax indictments against the most egregious tax evaders in this State. We went after luxury yachts and airplanes. Now I have submitted a full summary of these three provisions so I won't get into them further.

But, clearly, in Massachusetts the ground rules changed with legal penalties getting more severe and our crackdown potential plainly demonstrated amnesty was offered as a transition to a new era of even tougher enforcement.

Amnesty offered a one-time window of opportunity, which consistent with the remarks of Senator Dixon, is critical. One time only. With the Revenue Department demonstrating daily and visibly that not only could it bark, but we also had a bite, people took us seriously and came on down and paid up in record numbers. Our early estimates of amnesty were in the $5 million category. In the end over $83 million came in.

I might add that during amnesty we said that once the amnesty program was over, there would be no more Mr. Nice Guy at the Massachusetts Department of Revenue. Once amnesty was over, our crackdown resumed with fresh force. Over a 2-year period, our audit assessments were increased 92 percent; seizure activity was up substantially, as were our criminal prosecutions.

One more final point I'd like to make. That is another strategy which was developed to help combat tax evasion, and that's a commitment in Massachusetts to treating honest taxpayers as valued customers; not victims of a bureaucracy. Amnesty helped us realize that people will respond to a second chance, to an appeal to their better instincts, with some positive reinforcement.

We've taken that lesson and attempted to implement it on a broad scale with more "user-friendly" tax forms, with taking our

taxpayers' services to where taxpayers are, whether it's suburban shopping malls, senior citizen centers, and so on.

Finally, in summary, the key point is we seem to have been turning the tide on tax evasion in Massachusetts. We have attempted to isolate what the economy can't explain in our revenue growth and believe that increased voluntary compliance as a result of amnesty and our other efforts to crack down on tax evasion have accounted for $165 million of our collections last year. That's a quarter of our total revenue gain and it doesn't take into account the $83 million in revenue from amnesty.

Now I've submitted supporting documentation for that estimate for Massachusetts. I note that a similar Federal increase might mean another $20 billion in Federal collections.

Senator CHAFEE. I'd just like to ask you a question on page 7, next to the last paragraph. You say you have had a revenue growth of over 26 percent in 2 years.

Mr. HERMAN. Yes, sir, that's correct. In two years, our revenue growth has been over 26 percent.

Senator CHAFEE. With the same taxes? No tax increase?

Mr. HERMAN. We have not raised broad-based taxes in Massachusetts. We have had some minor adjustments which account for less than 1 percent of our revenues. But we have had a substantial revenue growth which cannot be explained either by the growth in GNP, personal income or inflation. And we feel a substantial percentage of that is an increase in voluntary compliance as a result of our efforts through amnesty, through educating the population of Massachusetts that tax evasion is not a victimless crime, honest taxpayers are victims, and with the stick, if you will, that if you don't come on down and pay up, the Revenue Department is serious and will be able to come out after you and collect the taxes one way or the other.

Senator CHAFEE. Well, thank you very much for this information. And it's very interesting the way you did it. Putting the heat on the people in advance of this program so that they knew they had better take advantage of the amnesty or they were going to be in trouble. That seems to make a lot of sense.

Mr. HERMAN. Mr. Chairman, if I may make one final point with regard to fairness of the system. We in Massachusetts believe that part of the problem arose in Massachusetts and also nationally because of the perception of unfairness of the system. Today, you and your colleagues are presented with a rare opportunity to link tax reform and tax fairness to improving voluntary compliance.

With new and fairer tax laws, public attitudes can be changed, and we feel they must. So what better time, Mr. Chairman, to offer an amnesty? With a change in the ground rules, taxpayers will get a deserved opportunity to come in, to clear up their own tax delinquencies and to welcome tax reform with a clean slate.

Senator CHAFEE. Do you think the Federal Government should share its information, if we went into this amnesty, we should share it with the States?

Mr. HERMAN. Mr. Chairman, we have shared our information with the Internal Revenue Service.

Senator CHAFEE. But you indicated that perhaps that was a mistake.

Mr. HERMAN. We don't feel that was a mistake. We feel that our program would have been even more effective if there had been a Federal amnesty at the time. I encourage—and I find as a tax administrator that it makes our job easier; it helps us bring in more revenue and it's more beneficial to the Federal Government—if there can be a two-way sharing, both from the IRS to the Massachusetts or other State departments and the other way around.

Senator CHAFEE. How would you compare Massachusetts' enforcement efforts and administration of its tax system with the Federal Government? The same? Less vigorous? More vigorous?

Mr. HERMAN. The Massachusetts Department of Revenue has a distinguished history of tax enforcement and innovation. It has also had very serious problems in the past. When Commissioner Jackson and I came to office 2½ years ago, we found an accounts receivable problem—a Massachusetts tax gap—of over $600 million. We have narrowed that gap substantially. We feel that our efforts may not have been as innovative at that time or as effective as the Internal Revenue Service's, but I might add in recalling what Senator Dixon said earlier, that there is today a very, very serious Federal tax gap problem—over $100 billion this year. So whether or not we did as good a job—or not as good a job—as the IRS in the past, there is a very serious problem facing the Federal Government today and a problem the solution to which could go substantially toward helping deficit reduction.

Senator CHAFEE. What did the honest taxpayers who were filing—what did they think of your system?

Mr. HERMAN. We found that there was an extremely widespread acceptance of our amnesty. Obviously, among those people who took advantage of it, but among the general public as well. We had an $83 million windfall in amnesty, plus as a result of amnesty and our other crackdown efforts, substantial increase in voluntary compliance, which last year was $165 million and we expect to have that figure recur in the future.

Senator CHAFEE. Wait. I don't understand that. You had an increase in compliance.

Mr. HERMAN. That's correct.

Senator CHAFEE. How can you quantify it in dollars?

Mr. HERMAN. I can submit supporting documentation for it, but using an economic analysis, taking into account growth in personal income, GNP and inflation, there was approximately $165 million which didn't fit into any of these categories and which weren't explained by any of the growth of any of those three elements. And we attribute that to voluntary compliance as a result of our effort to educate the public as to the seriousness of tax evasion and our crackdown on tax evasion.

Senator CHAFEE. All right, fine. Thank you.

[The prepared written statement of Mr. Herman follows:]

Presented before:

United States Senate Finance Committee
Subcommittee on Taxation and Debt Management

Testimony of:

Thomas D. Herman
First Deputy Commissioner of Revenue
Massachusetts Department of Revenue
June 22, 1985

On Behalf of:

The Honorable Michael S. Dukakis
Governor of the Commonwealth of Massachusetts

It's an honor to represent Governor Michael Dukakis before this Subcommittee in support of Senator Dixon's bill calling for a Federal Tax Amnesty. Only poor health and doctor's orders have prevented Commissioner Ira Jackson from being here today. We in Massachusetts weren't the first state to have an Amnesty program nor will we be the last. To date, twelve states have declared Amnesty for tax delinquents and almost a half billion dollars has been collected nationwide from the programs.

Tax Amnesty worked in Massachusetts. We've collected over $80 million -- an estimated 37 to 1 return on every dollar we invested in special costs for the program. If comparable success were achieved at the federal level, almost $10 billion could be collected.

In Massachusetts, some 50,000 individuals and businesses came forward to clear up past tax liabilities and wipe the slate clean under Amnesty. If that experience were replicated at the federal level, you could expect three million taxpayers to take advantage of the program Senator Dixon has proposed.

One other point should be made in trying to assess the potential for a Federal Amnesty based on our results. A number of taxpayers, and lawyers and accountants representing taxpayers, have called or written us to tell us that they or their clients would have paid up under our Amnesty, but they did not want their names shared with

the IRS. One such letter states, "If the IRS adopts an Amnesty program I think it's safe to say that five times as many people would participate if they knew they could pay off their back federal taxes without fear of punishment for past indiscretions."

What's obvious from this correspondence -- and what we in Massachusetts have learned from the Amnesty experience in general -- is that popular perceptions are often what motivate people to act -- or not to act. Most tax administrators will tell you that a full and voluntary disclosure of past tax liabilities won't land you in jail. In fact, criminal cases are generally precluded in such instances. Even penalties are frequently waived for taxpayers who voluntarily pay in full. The IRS abated $2 billion worth last year alone as part of its standard operating procedures. But most taxpayers just don't see it that way. They know they've fallen into bad tax habits for a number of reasons -- some of them excusable -- and they don't believe there is a second chance to be had.

Changing perceptions means changing behavior and Amnesty is just one small element of the effort we've undertaken in Massachusetts to change public attitudes about tax evasion. People need to understand that the enemy is not the tax collector but the tax evader; that the honest taxpayer is being "ripped off" by a minority of deadbeats and cheats; and, that tax evasion is not a harmless and

socially acceptable lark, but a serious crime, a crime with real victims.

Preparation for Amnesty began in Massachusetts almost seven months before the program officially started. Governor Dukakis and Commissioner Ira Jackson were determined to crack down on both tax delinquents and evaders. We gambled on a bold strategy that sought to balance a progressive state budget with revenue from better collection and tougher enforcement of existing taxes rather than the imposition of new taxes or higher rates.

The Governor felt that honest working men and women -- the vast majority of Massachusetts citizens -- were already paying enough. He also recognized that if Massachusetts is to maintain its healthy, competitive economy, taxes need not and must not be raised. And the key to tax rate stability was to go after the estimated 15% of our potential revenue being lost to evaders and major delinquents.

The effort began in Massachusetts with a drive to make the public aware of the scope of the problem. With better management and focus, we sought to make better use of the collection powers already on the books. And with the help of the Governor and the Legislature we created an arsenal of new powers through an omnibus tax enforcement law known as the Revenue Enforcement and Protection Program -- REAP for short.

Under REAP, tax evasion was made a felony in Massachusetts -- a remedial step which brought our penalties in line with federal statutes. Thus, immediately the stakes for being convicted for tax evasion went up dramatically. Another REAP initiative gave us the power to revoke or refuse to renew state or local government licenses and contracts when the individuals or businesses had not filed or paid their taxes. Our philosophy is that when government licenses a business or a professional, or buys services, it has a right to insist that the basic obligation of paying taxes is met.

A third REAP provision allowed us to contract with private collection agencies to act on long-standing delinquent accounts.

Along with these legal powers, the 1984 state budget gave us a 30% increase in our appropriation for bolstered staff and more sophisticated computer resources.

In preparation for the Amnesty program, authorized as part of REAP, we conducted a carefully orchestrated seizure drive, hitting at least two seriously delinquent businesses a day in different parts of the state. Naturally, all this was done carefully and in full observance of everyone's due process and other legal rights. In the summer, we moved the seizure drive from restaurants and retail establishments to luxury yachts on which the sales

or use tax hadn't been paid. In the fall we began scouring airports across the state for planes on which the tax had been illegally avoided.

I've submitted, for the record, a full summary of the enforcement initiatives which were authorized by REAP -- along with results from these and other previously authorized programs. These documents reinforce the point that Amnesty was not an isolated event. Nor, in our opinion, can any successful Amnesty be. Just before Amnesty began, we initiated our first action to revoke professional licenses. We also closed down two well known restaurant chains in Greater Boston and seized the warehouse of a major tax evading border merchant. In the courts, working with the Attorney General, we brought the largest single group of criminal tax evasion indictments in the state's history.

Clearly, in Massachusetts, the ground rules changed. With the legal penalties getting more severe and the crackdown potential plainly demonstrated, Amnesty was offered as a transition to a new era of even tougher enforcement. Amnesty gave people a one-time window of opportunity to come in and settle up, without fear of penalties, prosecution or further recriminations. With the Revenue Department demonstrating daily and visibly that not only could it bark, but it could bite, people took us seriously when we said this was a last-chance opportunity.

Even so we didn't anticipate the incredible response to our Amnesty offer. Applications poured in from virtually every state and 12 foreign countries, and from people in all walks of life, professions and income categories. On the last day of Amnesty over 30,000 people contacted us; over 10,000 lined up at our Boston headquarters alone to file forms and pay bills.

Our crackdown resumed with fresh force the minute Amnesty was over. Over a two-year period, audit assessments were increased 92%, seizure activity was up 317%. Referrals for criminal prosecution were up 59% in fiscal year 1984 alone.

Along with Amnesty -- and made much more public because of it -- another strategy was developed to help combat tax evasion. That is a commitment to treating taxpayers as valued customers, not victims of a bureaucracy. Amnesty helped us realize that people respond to a second chance, to an appeal to their better instincts and some positive reinforcement. We've taken this lesson and implemented it on a broad scale.

New "user-friendly" tax forms were developed -- forms which are shorter, printed in lay English with understandable instructions and spruced up with graphics, contrasting colors and helpful examples. Our outreach efforts were

expanded to take taxpayer services where taxpayers are -- at suburban shopping malls, senior citizen centers, and, with a couple of "taxmobiles", to remote communities.

Finally, we've been giving people the fastest possible refund service. This year Commissioner Jackson made a commitment to taxpayers that refund checks would be issued in four weeks' time to those filing error-free returns through early March. We ended up doing even better than that. Ninety percent of all 1.7 million refunds filed right up to April 15th went out in four weeks. In fact most of those were out in less than 20 days.

I've already mentioned the $83 million we collected from the Amnesty program. But what's more striking is our overall revenue collections since the Amnesty program. We experienced a record increase in fiscal year 1984, and the fiscal year just ending will match and exceed that increase. Our booming state economy is one key to these genuinely unexpected revenues. But revenue growth over 26% in two years is well above any growth in inflation, GNP or personal income. As one sage of the Massachusetts revenue scene put it, "We're REAPing out all over."

The key point is that we seem to be stemming the trend and turning the tide on tax evasion in Massachusetts. We've attempted to isolate what the economy can't explain in our revenue growth and we believe that increased voluntary

compliance accounted for $165 million of our collections last year. That's a quarter of our total revenue gain and it doesn't take into account the $83 million in revenue from Amnesty.

I've submitted supporting documentation on that estimate for Massachusetts. I note that a similar federal increase would mean another $20 billion in collections.

In making comparisons, I realize that some people have argued that our program succeeded only because people did not previously take us seriously -- certainly not as seriously as the IRS. Perhaps. The IRS is a solid organization, with an excellent track record over the years. No one takes it lightly. But no matter what the validity of the comparison, it misses the point dramatically. For whatever reasons, the IRS today has a $100 billion tax gap and another $30 billion in accounts receivable. We're losing the national battle with the tax evader and voluntary compliance is plummeting. The IRS is auditing fewer individuals and corporations, servicing fewer taxpayers and losing employees. Its own study reveals that one in five Americans admits to cheating; one in three condones it, and taxpayers' attitudes and behavior are getting worse not better.

Why not go after these problems with every proven and every possible weapon?

We don't claim any franchise on wisdom in Massachusetts. We're just one case study. We've looked at what's worked elsewhere and sought to innovate and improve upon it. In executing our Amnesty and REAP, we have made our share of mistakes. But we have learned from them. California and Illinois have benefitted from our experience. New York is about to embark on its own program with an even broader base of experience to draw upon.

We realize the difficulty of applying our state experiences to an agency like the IRS, with a different history, so many times our size, spread over the entire nation.

All state tax administrators are indebted to the IRS for the leadership and assistance it has provided for many years. Our experience with Amnesty is offered as a way of repaying one small portion of the debt we owe to their example.

And there may be no better time to develop new and creative enforcement techniques. No one has to be reminded that the federal deficit has reached unacceptable levels and threatens to choke off economic growth. Reductions in domestic programs for people in need threaten a fiscal crisis at the state and local level, if not a safe and decent life for our most vulnerable citizens. And you

in Congress are the ones who in the end have to vote on the tough choices involved.

At the same time, you and your colleagues are presented with a rare opportunity to link tax reform to improving voluntary compliance. With new and fairer tax laws, public attitudes can be changed. So what better time to offer Amnesty? With a change in the ground rules, taxpayers will get a deserved opportunity to come in, clear up past delinquencies and welcome tax reform with a clean slate.

With Congressional support for enabling legislation and needed resources, our colleagues at the IRS can be given not only the chance to take on this challenge but the tools to succeed. Certainly, all of us, both as public officials and as private citizens, stand to benefit if they can.

State Tax Amnesty: Still A Way To Go

By ED BLAZINA
Of The Tribune-Review

State Rep. Fred Trello makes no bones about it: He's out to blatantly copy the Massachusetts tax amnesty program and put it into operation in Pennsylvania.

After a House Finance Committee hearing in Pittsburgh Friday, Trello said the Pennsylvania tax amnesty law he proposed will need substantial revision before it is ready to be presented to the full Legislature.

During the hearing, the heads of the revenue departments in both Massachusetts and Pennsylvania said that any amnesty program must be combined with a program to toughen penalties for tax delinquency and evasion.

Massachusetts Revenue Commissioner Ira A. Jackson said the amnesty program instituted last October has resulted in the collection of $62.3 million in delinquent taxes. However, he said the program would not have been a success if it hadn't been combined with a stepped-up enforcement program.

"The law alone and well-intended statements doesn't make for a successful amnesty program," Jackson said. "It was made plain that Massachusetts was going to get serious about delinquent taxes. It was the advent of that new era of enforcement that made amnesty work."

> *'Any amnesty program should go hand-in-hand with provisions to put even more teeth into Pennsylvania's tax enforcement. While amnesty may be a short-term treatment for some delinquencies, voluntary compliance and strong enforcement is the long-term prescription.'*
>
> *— Secretary James Scheiner*

The Massachusetts program worked "beyond our wildest dreams" because the Commonwealth made tax evasion a felony punishable by a jail term and went into a massive marketing campaign to encourage residents to pay their taxes.

After four months and several arrests, the state suddenly announced a three-month amnesty period that has resulted in 180,000 taxpayers turning themselves in and paying back taxes with interest.

In addition to the financial penalties, Massachusetts law was changed to allow the state to revoke the licenses of any professionals who willfully avoided paying taxes.

Jackson said one taxpayer showed up at the Revenue Department and waited outside while he sent a friend to get his tax forms for the past 40 years. In another instance, Jackson said a lawyer who quit paying his taxes in 1975 when he found out he had terminal cancer got forms for the past eight years, paid his taxes with interest, "and we wished him continued good health."

Pennsylvania Revenue Secretary James I. Scheiner neither endorsed nor criticized the proposal, but he cautioned the committee not to treat delinquent taxpayers better than those who pay on time. He said that the proposed legislation currently waives both interest and penalty fees, which would mean that delinquent taxpayers could have made money on their taxes by investing the money rather than paying taxes.

"Any amnesty program should go hand-in-hand with provisions to put even more teeth into Pennsylvania's tax enforcement," Scheiner said. "While amnesty may be a short-term treatment for some delinquencies, voluntary compliance and strong enforcement is the long-term prescription."

Scheiner also cautioned the committee not to assume Pennsylvania would receive as much delinquent tax revenue as Massachusetts because taxes in some areas are four times higher in Massachusetts.

Allegheny County Treasurer Jay Costa said he supports giving amnesty to individual taxpayers, but he said he is against giving wealthy corporations amnesty. The state Association of Boroughs also expressed support for the program, but questioned whether it should be extended to property taxes.

Trello said his committee plans to meet with Scheiner to "put some teeth" into the tax enforcement laws before revising the bill. The final form of the bill will include stronger penalties for tax evasion and provisions to revoke professional licenses, he said.

"From the testimony here, we see we have some more work to do," Trello said. "If we can't make it as effective as Massachusetts, we might as well not do it. We're going to do it right or not do it at all."

Trello said the legislation should be ready for submission to the full House by next fall for passage and enactment next year.

Pittsburgh Tribune Review - March 24, 1984

Coming Clean

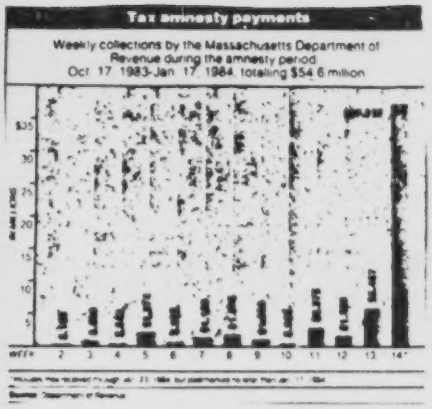
Bay Staters scramble to pay up

The scene was reminiscent of an unemployment office. But the thousands of grim-faced men and women who lined up in the office of the Massachusetts revenue department in downtown Boston last week were there to give money, not take it. Marveled one tax examiner: "It's the first time I've seen taxpayers storming the doors of the revenue department."

With good reason. Last year the state legislature made tax evasion, which had been a misdemeanor, a felony with a maximum sentence of five years in prison. But it gave delinquents a 90-day grace period, ending last week, to pay their back taxes plus interest. The opportunity persuaded an astounding 130,000 tax dodgers to open their checkbooks, and netted the state approximately $50 million. Exclaimed Revenue Commissioner Ira Jackson: "The amnesty has been extremely successful."

An out-of-state Fortune 500 company coughed up $1 million. Other checks have ranged from 8¢ to $287,000. In last week's queue: a middle-aged widow who had discovered that her late husband had failed to pay a 1973 state tax bill for $52.70. With interest, she now owed the state more than $200. The startling results have inspired Native Son Tip O'Neill, Speaker of the House, to call for a congressional study of a federal tax amnesty program. ■

Time - Jan. 30, 1984



Tax chief never rests

Tax amnesty ends, luxury cars are next

By Norman Lockman
Globe Staff

While officials of the Massachusetts Department of Revenue were gloating yesterday over the $54.6 million it take from the state's tax amnesty program, Revenue Comr. Ira Jackson was already setting his sights on yet another tax gathering plan.

Jackson went to Springfield to publicize the results of the three-month amnesty program, but while there he quietly discussed with a computer program in the tax commissioner's Springfield office.

The so-called LuxCar, and as the name suggests it is designed to pinpoint all new luxury automobiles in Massachusetts. Jackson said he has a hunch that cars costing more that cost over $25,000 might lead the investigators to another major hole in tax evaders.

"We are going to have a check run on the Rolls Royces, the Jaguars, the Mercedes, BMWs, Lincoln and Cadillacs," Jackson said.

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Tax amnesty ends, luxury cars are next

■ AMNESTY
Continued from Page 17

ticularly the ones registered with corporations and are what's what," he said. "We have a printout with 10,000 of these cars.

"Many of them are perfectly legal. But we know that some of these owners don't file taxes, some register their cars with corporations that don't file excise taxes. We know that some of these cars are registered through 'Ma and Pa' stores, and I want to know if a BMW 533i is really making local deliveries of Wonder Bread."

"I think it would be interesting and illuminating to audit some of those people - some of whom have told us they are bankrupt and some of whom have adjusted taxable incomes of $6000 but have paid cash for their fancy cars."

"We know we have to be firm, fair, consistent, aggressive - and unpredictable," Jackson said in a telephone interview.

The revelation was vintage Jackson: flamboyant and combative. Since last summer, he has been the maestro behind a series of orchestrated tax seizures - of yachts, airplanes, restaurants and even an appliance warehouse. But those were simply lead-ins to the amnesty program.

"It was a necessary prelude," said Jackson. "We knew it would only work if we were taken seriously, so we decided to go after the powerful and influential folks first."

Jackson doesn't take all the credit for putting the amnesty program into place. He says it was Rep. Robert B. Ambler (D-Weymouth), the vice chairman of the House Ways and Means Committee, who suggested it become a part of the Dukakis administration's "Revenue Enforcement and Protection (REAP) package."

"I leaped for joy inside when Ambler brought it up," said Jackson. "We had thought about it, but had decided not to include it as part of REAP because we didn't want to overload the package. After Ambler broached the idea, it then was introduced by Sen. [Chester G.] Atkins [D-Concord], and it became the last REAP item approved."

In the past few weeks, the reported success of the amnesty program has made Jackson something of a celebrity. Requests for information about the program have come in from 26 states, New York City, the Canadian Parliament, several members of the US House and Senate and from both the Washington and Boston offices of the Internal Revenue Service.

The interest has prompted the Department of Revenue to begin sending out packets of information about the program.

"Everybody's getting inquiries, including us," said Ambler. "But I'm not sure this is going to work for everybody. [Jackson] went after the big guys and he scared them. They jumped at the opportunity of not being embarrassed. If he had not put the squeeze on it would have never worked."

Richard T. Manley, executive director of the Massachusetts Taxpayers Foundation, was no less impressed. "I've been around here for 20 years," he said, "and I've never seen anything like it."

Jackson does have his detractors, however. A source within the department said privately yesterday that Jackson's figures were inflated because the payments of known delinquents who had already negotiated settlements were being counted as part of the overall amnesty take.

Jackson confirmed that, but said it accelerates delinquent payments even though the state loses the penalty payments.

Orest T. Dubno, the commissioner of Connecticut's Revenue Service, said he would never consider declaring amnesty for people already known to owe taxes.

"We collect $5 million to $10 million of delinquent taxes a month, that's what we are supposed to do," said Dubno. "I would think of amnesty as what could be collected above and beyond that."

Nevertheless, Dubno said he intends to send a team to Boston to look at Jackson's system.

Amnesty has not been as successful in four other states that have tried it. Arizona collected a mere $6 million in 1982. Missouri collected only $853,633 last fall. North Dakota and Idaho each collected $150,000 last year.

Neither is the success of the amnesty program all fat for Massachusetts. Overtime for Revenue employees working extra hours to process the applications may run as high as $500,000 more than the anticipated costs.

Boston Globe - Jan. 25, 1984

Tax Report

A Special Summary and Forecast Of Federal and State Tax Developments

GUILT AND FEAR add up to a bonanza for Massachusetts.

The state received over $54.6 million from a three-month "tax amnesty" that ended Jan. 17. That's way above even the most optimistic forecasts. The "once-in-a-lifetime" offer allowed most deadbeats to pay taxes and interest without fear of criminal charges or penalties. One man paid $287,000 owed on a capital gain. A stockbroker who hadn't filed in three years paid $165,000. State officials still haven't finished counting all the checks they received.

"It's kind of unusual in the tax business to have thousands of evaders and delinquents storming your doors with payments in hand," says Ira A. Jackson, revenue commissioner. More than 25 other states have asked for details. House Speaker O'Neill favors a onetime nationwide amnesty; the Ways and Means Committee is studying the idea. Senate Budget Chairman Domenici says it's "astounding" how much Massachusetts raised and that a national amnesty "surely is worth considering."

But the IRS remains opposed, arguing that honest taxpayers would view it as special and unfair treatment for cheaters.

Wall Street Journal-Jan.25, 1984

Uncle says 'no'

COME AGAIN, please.

Massachusetts runs a one-time-only amnesty deal for tax delinquents, deadbeats and evaders, and picks up $40 million (or possibly more) it was owed.

Arizona, North Dakota and Missouri try the same thing, and make out pretty well too.

But the Internal Revenue Service, which chases and collects taxes for a federal government up to its armpits in a deficit which some experts fear will kill our economic recovery unless it's brought under control, won't touch the idea.

Why not? Well, IRS Commissioner Roscoe L. Egger Jr. says it would be "unfair" to honest taxpayers to try something like that.

Come again, please, Commissioner. What's really unfair to honest taxpayers is knowing that while they file on time, pay what they owe, and even get audited every now and then, other folks are either ducking or under-paying what they owe — and, thus far, quite a few of them seem to be getting away with it. Call it a case of misery loving company if you wish, but we wouldn't mind at all if they were persuaded to pay their share.

Then there's Ernie Acosta, who is identified as a spokesman for the IRS, who says amnesty might be seen as "special treatment" for tax cheats.

Horrors. But when you think about it, so is jail, and that hasn't yet stopped the feds from sticking egregious welshers into a cell. It just might be that giving some of them a chance to pay up rather than court prosecution might be just as effective, and a lot less expensive, than giving them free room and board in Danbury.

But there's another reason why it's necessary to ask the commissioner and the voice of the IRS to come again, please. An aide to Speaker Thomas P. O'Neill Jr., who has asked the agency to try offering amnesty, figures that about $100 billion in federal taxes are not paid — each year. We have been warned, until we're sick of the sight and sound of the numbers, that the government is running a deficit, this year, of somewhere between $180 and $200 billion.

We suspect there's a multitude of honest taxpayers who, thinking about those deficit numbers, might think it a good idea for the IRS to collect more of that owed money by whatever legal means are available to it, including amnesty. So when the IRS says uh-uh, and gives as reasons that it would be "unfair" to good folks and "special treatment" for cheats and deadbeats, they ought to come again, please — with far better reasons than those.

Better still, maybe they ought to get going on an amnesty program of their own.

The Boston Herald-Jan. 22, 1984

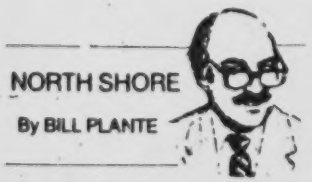
Amnesty proves an untaxing solution for state

If Ira Jackson had been the Sheriff of Nottingham, Robin Hood would have been unemployed.

Ira Jackson is Massachusetts commissioner of revenue, which in our fancy way of saying tax collector, and tax collectors are not supposed to carry on the way Ira Jackson is carrying on. They are supposed to be mean grouches who, when they are not threatening everyone with 90 days on bread and water are twirling their mustaches and putting women and orphans out into the street.

But not Ira Jackson. Hardly ever see him without a smile. Not that he doesn't have his hand out when he's smiling. He'll take every dime the state has coming, but he does it in a way that seems not to hurt. And that is double-whammy.

No one really knew what to do about unpaid taxes until Ira came up with the thought of declaring an amnesty for those who admitted owing them. That seems simple enough, but not to those on the inside of collection problems.



Truth is, the state's records were so bad in the recent past that its collectors really would have been hard-put to pin down the payers from the non-payers. Ira Jackson told me some time back to bang onto all receipts because if the state says I owed, I'd have to prove that I didn't. Things were in such a mess, the state probably couldn't say one way or another and the burden would be on me. Praise be for canceled checks.

When he took over for the Dukakis administration there wasn't a single computer in the shop, and that is a $5 billion business.

So the amnesty idea wasn't as off the wall as it sounded. If you really didn't have the leverage to tighten the screw, then why not appeal to conscience?

Conscience? In this day and age? It was to laugh. Maybe. But something was better than nothing, and if conscience wouldn't work with everyone, who was to say that the state might not have records in a shoebox somewhere that just might be embarrassing?

So it was a psychological mix that did it. Say, three teaspoons of conscience to half a cup of fear blended with media hype and baked in apprehension at 350 degrees for several weeks, et voila! Success beyond anyone's hopes. At the end, people were beating down the door to pay taxes that had been, for one reason or another, overlooked.

Will it happen again? No way. That's all she wrote, folks. Ira Jackson may be the nicest guy ever to sit in the tax collector's seat, but he's no pushover. The thing about an amnesty program is that it works only once. Try it a second time and no one would pay their taxes. If that happens, the Sheriff of Nottingham is back in business.

The bottom line of all this is that if everyone paid the taxes they owed when they owed them, those who had been paying would be paying less. The catch there, of course, is whether the pols wouldn't find a place to spend the extra money. But that's a separate problem.

When it comes to spending our tax dollars most legislators and governors like to think of themselves as Robin Hood. At times like that, I have a great deal of sympathy for old Prince John.

As for Ira Jackson, keep your eye on him. He's a comer.

Beverly Times - Jan. 21, 1984

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Page 6A FRIDAY, JANUARY 20, 1984

Editorials

Tax Amnesty: Why Not?

When Massachusetts Revenue Commissioner Ira Jackson first announced his amnesty program for state tax delinquents, he estimated a return of about $3 million. A few weeks later, he upped that to $10 million and then $30 million. When the grace period ended on Tuesday, about 30,000 people had paid the state somewhere around $40 million in overdue taxes. The program cost the state about $500,000, according to Jackson's office.

The amnesty not only provided an immediate cash windfall for the state, it most likely got thousands of people back on the rolls as regular taxpayers. State tax collections will be increased for many years to come. Jackson's initiative is one of the most striking government success stories in years.

Yet the U.S. government seems blind. Officials of the Internal Revenue Service say the agency's position is unchanged from last May, when Commissioner Roscoe L. Egger Jr. told Congress that a tax amnesty wasn't a good idea.

That may have been a reasonable assumption then, but the smashing success of the Massachusetts experiment calls for a re-evaluation by the IRS. If one state can garner $40 million in a few weeks by declaring an amnesty from criminal prosecution and penalties, who knows what the federal government might get?

Estimates of the total tax delinquency at the federal level are mind-crunching. Some claim that as much as $100 billion is not collected each year. Most of that is probably lost forever, but an amnesty might salvage billions, while getting hundreds of thousands of delinquent taxpayers back on the rolls.

The IRS should take another look.

Worcester Telegram - Jan.20, 1984

Tax amnesty — one-time take

Massachusetts has just tried a disarmingly simple approach to collecting taxes that people owed but hadn't paid — and it worked. The Bay State offered amnesty for three months to anyone who owed it taxes, provided they squared fiscal accounts. And pay up they did, an estimated $40 million, far more than even the most optimistic expectation.

It's something other states, and the federal government, ought to think about doing. In recent months three others have done the same thing — Arizona, Missouri, and North Dakota. They, too, achieved success.

The American tax system depends for its success on voluntary compliance; tax officials say the level of honesty is quite high. Yet enormous sums that are owed government at all levels lie unreported or uncollected — by one estimate as much as $100 billion a year.

Many taxpayers who took advantage of the Massachusetts program had not previously filed the required returns. Some of them likely would not have been caught or, if found out, prosecuted successfully, inasmuch as their cheating had occurred so long ago that the statute of limitations had run out.

Evidently they yearned, deep down, to square accounts with their government — and their inner selves. That they decided to pay up is a heartening indicator that the basic level of honesty in American society is higher than sometimes given credit for.

So many people responded to the program that state offices remained open the final weekend and until midnight on the last day.

Officials had warned that the amnesty was a one-time occurrence, as it had to be. Repeated offers would only tempt the weak-willed to withhold proper tax payment until the anticipated amnesty time rolled around, and that would be unfair to the scrupulously honest. But as a one-time thing, it has much to recommend it.

Christian Science Monitor-Jan. 19, 1984

Thousands Pay as Bay State Tax Amnesty Ends

By JANELLE CONAWAY

BOSTON, Jan. 17 — Thousands of people, many of them looking tired or grim, have stood in long lines at the Department of Revenue for the past few days, waiting to come clean. A three-month amnesty for state tax evaders was expiring at midnight tonight.

"This has been a millstone around my neck," said a 35-year-old woman waiting for her number to be called so she could meet with a tax examiner. She did not file her 1982 state tax return because she figured she would have to pay $100. "It didn't seem fair because I'd made so little," she said.

She said she was unemployed part of the year and had worked as a waitress before getting a municipal job. "I think maybe I could get away with not paying," she said, adding, "But I feel better doing this."

The amnesty from penalties and criminal prosecution for those who paid up applies to corporations as well as people. An out-of-state Fortune 500 company paid more than $1 million in overdue excise taxes, said Ira A. Jackson, the Massachusetts Revenue Commissioner. Checks for personal income liability have ranged from 8 cents to $37,000.

$33 Million Already Collected

Mr. Jackson said 100,000 people from 41 states and several foreign countries had written or called the state's amnesty hot line numbers. More than 40,000 amnesty applications were distributed.

A spokesman for the Massachusetts Revenue Department said that by late this afternoon the state had collected more than $33 million.

Mr. Jackson said that until now the most successful tax amnesty program was in Arizona, which collected $6 million in back taxes last year. "We were hopeful we'd do half as well," he added.

"The response has been extraordinary."

He said the taxpayers included "doctors and lawyers and candlestick makers, self-employed mountains and stockbrokers, priests and nuns and rabbis — people he said were motivated by "fear, guilt or gratitude."

But Mr. Jackson added that Massachusetts was still losing $500 million a year through tax evasion, a figure he said was comparable to amounts for other states.

Last year the Legislature changed the state tax laws, making tax evasion a felony with a maximum sentence of five years in prison and fines of up to $100,000 for an individual and $500,000 for a corporation. It had been a misdemeanor. The Revenue Department began a tough enforcement program, hired 300 more auditors and investigators and acquired new computers.

Notices to 1,000 Boat Owners

In July and August the department conducted a sweep of ports and airfields to identify yachts and private planes registered to out-of-state corporations to escape Massachusetts sales and use taxes. Two thousand boat owners and 500 plane owners were sent notices.

The department also stepped up seizures of property for failure to pay corporate taxes, and some seizures received wide attention in the news media. According to Mr. Jackson, this not only brought in hundreds of thousands of dollars from other delinquents but also delivered an important message: the state was "not just picking on someone who made $37,000 on a garbage side" but it is going after "the lawyer who has a 36-foot yacht and a fancy car, listed as an illegitimate business expense."

The Revenue Department recently released a list of 1,341 people who it said owed $33.36 million in personal income taxes. People already under investigation or prosecution for tax evasion did not qualify for amnesty.

"It's become the in thing to cheat on taxes," Mr. Jackson said, although he added that more than 98 percent of the taxpayers were honest.

"Tax is not a victimless crime," Mr. Jackson commented. "Because taxes eventually have to be raised to make up the losses. "The tax evader jacks the pocket of the honest taxpayer," he said.

Meanwhile, the Revenue Department has 10 court-approved writs to seize automobiles or airplanes later in the week if the owners have not applied for amnesty by midnight.

"Starting Jan. 18, it's no more Mr. Nice Guy," Mr. Jackson said.

State taxation official, addressing delinquent taxpayers in Boston as they waited to meet with a tax examiner.

New York Times - Jan. 18, 1984

Tax dodgers storm state revenue offices to pay up

LAST AMNESTY DAY — Becky Icze, left, speaks with state revenue official David Kramer at the Revenue Department in Boston Tuesday, on the last day of the program that has allowed taxpayers to settle their debts without penalties.

(AP Photo)

Associated Press

BOSTON — With a windfall haul of about $40 million from penitent tax evaders, the state turned today to wresting more delinquent tax money from people who didn't pay up during a 90-day amnesty period.

The Revenue Department, flush from the one-time amnesty that ended Tuesday with 30,000 people storming 11 state offices to pay tax arrears, is going after evaders among people who do business with state government or hold state licenses, such as doctors, dentists, pharmacists and embalmers, an official said.

"It's perfectly plain to people," said Harry Durning, a Revenue Department spokesman, "that we are increasingly serious. The chances of getting caught at tax evasion are all the more likely.

"We're cross checking on all sorts of computer operations."

He said computers will scan lists of all people holding state contracts for services or state licenses for professional services to make sure they are paying their taxes.

"It's perfectly plain to people...The chances of getting caught at evasion are all the more likely."

—Harry Durning, Revenue Department spokesman

"We will not only check them for tax status," Durning said. "If they've not paid, we will have their licenses canceled or not renewed."

He said a provision in the new Revenew Enforcement and Protection Act (REAP) permits the cross checking.

"On the basis of what we have and the mail still to come in the next couple of days, there isn't much doubt we'll hit $40 million," Durning said as the amnesty ended.

During the period, which began Oct. 17, evaders were permitted to settle their accounts without fear of prosecution or civil penalties.

As of 11 p.m. Tuesday, the department had collected nearly $36 million, with the final day's returns from at least nine department offices in the state still uncounted, said Durning.

He said more than 30,000 people had appeared Tuesday at the department's main Boston office and 10 other offices in the state, with some 9,000 showing up in Boston. Boston, Worcester, Springfield and Hyannis office remained open until midnight.

Durning said he didn't know the total number of people who payed during the amnesty period, but he said he did know that at least $16 million came in on Tuesday alone.

"The one thing we're counting is money," he said.

Final tallies will not be avail. : for several days. On Friday, Durning said the state had collected $10.5 million from 16,000 taxpayers.

People who put their payments in the mail by midnight Tuesday also will be given amnesty, Durning said. Some 6,000 pieces of mail flooded the office Tuesday morning, he said, and much more was expected the rest of the week.

Durning estimated the cost of the amnesty program to the state at $500,000, mostly for overtime for employees and for advertising in Massachusetts and surrounding states.

He said the largest single payment was more than $1 million for an otherwise unidentified Fortune 500 company owing corporate excise tax. Another such company paid $400,000, he said.

"I wouldn't be at all surprised if more than 10,000 people walked through the Department of Revenue," Commissioner Ira Jackson said earlier in the day.

Middlesex News - Jan. 18, 1984

THIS IS YER LAST CHANCE TO GIVE UP!! AFTER THE 17TH WE COME IN AFTER YA!
TAX DODGERS INC
STATE
AMNESTY PROGRAM
REVENUE DEPT
GRANLUND

Middlesex News - Jan. 18, 1984

Tax amnesty nets $40M

By JAMES SIMON
Associated Press

BOSTON — State officials, facing thousands of taxpayers hoping to beat today's deadline for tax amnesty, extended office hours and called in workers on a holiday to wind up the program that may net as much as $40 million in back taxes — far more than officials dreamed.

"It's like April 15 out there," said Revenue Commissioner Ira Jackson. "We're just trying to prevent chaos.

"We collected about $10 million in the first 10 weeks of the program. I wouldn't be surprised if we wound up with that much" from today alone, a weary Jackson said Monday after his downtown Boston office was flooded by 1,100 people between 8 a.m. to 1 p.m.

The Boston, Springfield and Worcester revenue offices were to be open until midnight tonight, the deadline for citizens to pay off state tax debts and interest without fear of penalties or criminal prosecution. The other offices were to be open until 8 p.m., but the hours

(Continued on 8A)

may be extended due to demand.

In Springfield on Monday, where residents clutching tax forms and checkbooks were jamming the revenue office, manager Tom Foley said, "I've been in this business for 24 years and I've never seen the like.

"This is Martin Luther King's birthday. It's supposed to be a state holiday for my people, but it's just been off the wall," he said, adding that his office received 294 telephone calls by noon Monday.

At the downtown Boston office, some taxpayers were disgruntled despite the free coffee and doughnuts and a surpisingly friendly attitude of state employees forced to work on a holiday.

"I wish they were going after rich people instead of people like me," said David Wright of Somerville. He said he had not filed state tax returns from several jobs and couldn't decide how much he owed the state from selling goods at a flea market.

Others maintained a sense of humor.

"I just heard about this last night and decided to come down here before I became a felon," joked Shari Kraft, a student at Emerson College in Boston who said she owed only "a small amount."

Jackson said Monday that the three-month amnesty program will raise about $40 million for the state treasury. Original projections were for $5 million to $8 million.

Jackson said his office had collected $18.5 million from 16,000 taxpayers through the amnesty program as of last Friday. Another 12,000 letters had yet to be opened, and about $10 million in last-minute filings was expected today, he said.

The plan, which has cost $500,000 to administer, began Oct. 17 as part of a drive against tax evasion. The overall effort included seizure of several restaurants, boats and airplanes for nonpayment of taxes.

The state also increased penalties for tax evasion, formerly a misdemeanor, by making it a felony punishable by a possible five-year prison term and a $500,000 fine. The number of prosecutions for tax evasion also grew in 1983.

Jackson said similar programs had been tried in Arizona, North Dakota, Idaho and Missouri. The largest sum previously raised was $6 million, in Arizona, he said.

Due to the Bay State's success, 20 states have requested additional information.

The Massachusetts amnesty plan "hasn't solved the 'tax gap' or closed the door on tax evasion," he said, "but it gives people a chance to come clean, settle up and never have to look back."

Middlsex News - Jan. 17, 1984

Mass. tax amnesty pays off

Special for USA TODAY

BOSTON — Thousands of delinquent taxpayers are expected to jam state offices today to beat Massachusetts midnight tax amnesty deadline — already the most successful of five states amnesty offers.

The one-time amnesty offer — begun Oct. 17 — is expected to earn the state $40 million.

More than 1,000 errant taxpayers crowded into a downtown Boston office Monday to pay up without penalty. One held a $5,000 check.

Four states — Arizona, North Dakota, Idaho and Missouri — have tried similar amnesty programs. By Monday, Massachusetts had counted $18.5 million from 16,000 taxpayers — topping Arizona's record $6 million collection in 1982. Massachusetts expects about $10 million more today.

USA Today - Jan. 17, 1984

BUSINESS

A Tax Amnesty In Massachusetts

Massachusetts is making an offer some of its residents can't refuse: amnesty for delinquent taxpayers. In an attempt to increase revenues without raising already high taxes, the state is allowing individuals and businesses to pay their back taxes—plus interest—without the threat of further penalties. The state estimates that it is owed $300 million, and, since the program began last October, 8,200 tax evaders have repaid more than $12 million in long-overdue assessments. Although 80 percent of the payments have come from private citizens, the biggest—$750,000—was sent in by an out-of-state company. Business is so brisk at the Boston office that revenue commissioner Ira Jackson says they've begun "to give out numbers like it's a bakery."

The amnesty program is part of the state's tough new tax-enforcement code that now makes tax evasion a felony punishable by up to five years in prison with fines as high as $500,000. One reason for the amnesty program's success is that Jackson has been rounding up the more flagrant offenders—confiscating their luxury yachts and private planes and even padlocking some companies. One small manufacturer, for example, had failed to pay any sales taxes on goods sold since 1977. In October revenue agents seized the company's warehouse and delivery truck. The company was later ordered to pay $1 million in back taxes. "The department is not in business to put people out of business," insists Jackson. "But we are not here to be a loan agency, either."

To catch tax cheats, Jackson is using special computer readouts of recent buyers of luxury cars; similar lists of yacht and condominium owners are planned. About 200 extra auditors and tax collectors have been hired, and the agency has installed five new toll-free telephone lines to handle the thousands of calls it receives each day. And the amnesty plan's days are numbered. "After Jan. 17," Jackson warns, "it's no more Mr. Nice Guy."

Newsweek - Jan. 16, 1984

State Amnesty

Tax Break Reaches Uganda

By GERALDINE A. COLLIER
Of The Gazette Staff

The state's amnesty program for delinquent taxpayers has reached out as far as Africa.

When tax examiner Peter Martucci picked up the phone at the Worcester office of state Department of Revenue yesterday, he found himself talking to a former Massachusetts resident now living in Uganda.

The caller explained that he had not filed state income tax forms for a couple of years while he was still a resident of the Commonwealth.

He wanted to know how he could clear up his problem under the state's one-time three-month amnesty for recalcitrant taxpayers.

Martucci explained how, then sent the man out the proper forms by air mail, special delivery to Uganda and told him to rush them back the same way so they would get here by Tuesday, the day that forgiveness stops and criminal penalties begin.

Time Running Out

The state amnesty program ends Tuesday, but Revenue Department offices will stay open this weekend in hopes consciences will inspire 11th hour payments.

The Worcester office, 75 A Grove St., has been busy with people and phone calls now that time is running out.

Murray A. O'Brien, director of the local office, said some want to pay up while the tax penalty has been waived and before criminal penalties start, but most people "just want to clear their consciences, like the priest who came in.

"I told him I would give him amnesty, if he would give me absolution," he said.

State officials are hoping a series of million-dollar-plus days will push the scheme's final net to more than $25 million. So far, the state estimated it has collected $13 million from penitent taxpayers.

The Revenue Department reported so far receiving 80,000 inquiries from almost every state and 12 foreign countries, and more than 13,000 amnesty applications. Some 8,500 amnesty payments have been made, and 4,500 cases are backlogged.

Paying Up

An out-of-state Fortune 500 company has turned itself in for $1 million in delinquent state taxes. O'Brien said the Worcester office has not gathered any million-dollar sums but a lot of local businesses have been paying up. "We've collected sums like $28,000 and $10,000," he said.

O'Brien said one well known local musician came in and paid $7,000 in back taxes. "He went out, saying he was going to write a song called *Amnesty*," chuckled O'Brien.

However, the money can flow either way. O'Brien said that many people coming in who did not bother to file back tax returns had taxes deducted from their paychecks and are actually due refunds.

Expecting an influx of last-minute inquiries, that state decided to open 10 district offices Saturday and Sunday, and extend hours Tuesday, amnesty's last day.

In Worcester, the revenue office will be open until 8 tonight and tomorrow night; 8 a.m. to 4 p.m. Saturday and Sunday and Monday, even though Monday is a state holiday, as well as 8:45 a.m. to 8 p.m. Tuesday.

Applications postmarked by Jan. 17 will be accepted as long is payment is made in full. Those who have already applied are advised not to be concerned about delays in processing.

Under the amnesty, taxpayers not already under Revenue Department investigation can avoid penalty charges and potential criminal prosecution for their delinquency. Back taxes, plus interest, must be paid in full, though.

MASSACHUSETTS TAX AMNESTY
A Warning And An Opportunity

Massachusetts is cracking down hard on individual and corporate tax delinquents and evaders.

- Collection of delinquent taxes is up 70% over last year; audits are up 71%.
- Criminal prosecutions are being stepped up against evaders, who now face felony charges, jail sentences up to five years, and penalties up to $100,000 for individuals, $500,000 for corporations.
- The Revenue Department is adding new computer equipment and 200 more auditors, collectors and criminal investigators to implement strong new legal powers, including the right to cancel public contracts and licenses to conduct a trade or profession.

If you, your company or clients have any unresolved or unreported Massachusetts tax obligations, be warned. Be aware of a last chance Amnesty to settle those problems with no penalty charges or legal repercussions. But, **the Amnesty program ends January 17.** You must apply and pay tax and interest by that deadline.

Others have gotten the message and moved into action.

- We have now had over 55,000 Amnesty inquiries from all over the country.
- Over 12,000 individuals and corporations have paid us more than $10 million in back taxes and interest.
- One non-Massachusetts company filed for the first time and paid us more than $750,000 in back taxes and interest. With Amnesty, the company saved over $100,000 in penalties. It also has our assurance there will be no criminal action.

For delinquents who fail to take advantage of Amnesty, and for evaders we detect after January 17, it will be far different.

Information and Amnesty forms can be obtained from Massachusetts Revenue Department Offices in:

New York (212) 582-0776 — Houston (713) 650-0390
Atlanta (404) 874-2920 — Los Angeles (213) 384-5148
Chicago (312) 987-9040

or wire me directly.

Ira A. Jackson, Commissioner
Massachusetts Department of Revenue
100 Cambridge Street
Boston, Massachusetts 02204

AMNESTY ENDS IN 8 DAYS

Wall Street Journal-Jan.9, 1984

Amnesty plans let tax cheats repent

By Richard Benedetto
USA TODAY

More and more states are finding that amnesty programs encourage their tax evaders to come forward and pay up.

Under most plans, individuals or corporations who have failed to file or who haven't completed their tax returns accurately can pay what they owe during the amnesty period without facing civil or criminal penalties.

But they must pay interest charges.

The most common beneficiaries of tax amnesty are people who don't file tax returns and have yet to be caught by the state.

For them amnesty provides one last chance before the state launches a crackdown on tax cheats.

In Massachusetts, officials are pleased with their amnesty program. Nearly 5,200 individuals and businesses have paid up their taxes so far, with estimates on total collections running as high as $20 million by the time the program ends next month.

Among those who came forward was a man who stopped paying his taxes in 1975 because he had a terminal illness. Now, eight years later, he's still alive and decided to pay up.

A retired military chaplain decided to "make peace with the commonwealth" and paid $12,000 in back taxes.

Officials emphasized that amnesty, to be effective, must be a one-shot deal.

"If you make clear that it's a one-time program not likely to be repeated again, it's worth doing," said Kent Conrad, North Dakota's tax commissioner.

With the success of state programs, it has been suggested that the federal government offer amnesty to bring in some taxes that otherwise would go unpaid.

Internal Revenue Service Commissioner Roscoe L. Egger Jr. told a U.S. Senate Finance subcommittee earlier this year that a federal tax amnesty could draw many nonfilers into the system. But he said honest taxpayers may view amnesty as special treatment for dishonest people.

Any amnesty plan, he said, should apply only to criminal prosecution, not civil penalties and interest.

IRS investigations last year collected $2.9 billion from nonfiling and delinquent taxpayers.

A last chance to pay up

The idea of amnesty for tax evaders is gaining acceptance across the USA.

- Massachusetts has collected $7.5 million so far in a three-month program that ends Jan. 17.
- Arizona's amnesty earlier this year netted $6 million.
- Limited amnesty programs in Illinois, North Dakota, Missouri and Idaho netted $1.4 million.
- Impressed by the results elsewhere, California is considering an amnesty plan next year, so is Connecticut.
- Taxpayer groups and the American Bar Association are pressuring the Internal Revenue Service for an amnesty on federal taxes. They say up to $20 billion could be collected.

USA Today - Dec. 20, 1984

Tax Report

A Special Summary and Forecast Of Federal and State Tax Developments

JIMINY CRICKET chirps again: States give amnesty to the conscience-stricken.

Four states have offered to waive criminal charges and most or all civil penalties for evaders who unmask voluntarily and pay taxes and interest due. In a two-month program ended last Jan. 20, Arizona coaxed in $6 million from 10,000 such delinquents—one an FBI agent. An insurance company paid Missouri $750,000 last week. A three-month Massachusetts campaign that began Oct. 17 already has turned up 7,000 debtors owing $500,000. An amnesty just ended in North Dakota exceeded its goal.

Non-filers and under-payers who came in from the cold in Massachusetts include two nuns who hadn't paid meals taxes for a restaurant they run, a public corporation that owes $200,000, and a retired, 80-year-old electrician who hadn't filed for 43 years. Billboards, some in Spanish, help publicize the amnesty, which state legislators approved as they upgraded evasion to a felony from a misdemeanor.

IRS Commissioner Egger opposes a federal amnesty. He says honest taxpayers might see it as unfair and that it might spur evasion later by those who expected the offer to be repeated.

Wall Street Journal-Dec.2, 1984

Amnesty offer nets $2.6m in back state taxes

Associated Press M Rev

More than 3100 persons have taken advantage of the Massachusetts tax amnesty program in the first month, generating $2.6 million in back taxes and interest charges for the state treasury, officials say.

The payments received so far in the three-month program have ranged from $2.07 to settle a personal income tax account to $375,000 for a liability on withholding taxes.

"I'm encouraged by the response we have had to date," said Revenue Comr. Ira Jackson. "But I'm still trying to get the word about this program to every last eligible person in every part of the state before the clock runs out."

The last day for individuals and businesses to complete payment of all back taxes and interest charges is Jan. 17. Participants then have all penalty charges waived.

Revenue officials said the delinquent taxpayers included:

- A man who had been told in 1975 that he had only six months to live decided to stop paying his taxes. He kept living, his doctor died, and he decided to begin filing again.
- A 55-year-old man who had never filed a state income tax. His comment: "I guess my conscience got the better of me."
- A retired military chaplain who never filed a state tax return after establishing a residence in Massachusetts. With the advent of the amnesty program he said he wanted "to make peace with the commonwealth."

Four other states – Arizona, Missouri, North Dakota and Idaho – have tried amnesty programs, but the Massachusetts effort is the most extensive ever undertaken by a state, said Revenue Department spokesman Harry Durning.

The department also has conducted a series of highly publicized raids and seizures of airplanes, boats and businesses owned by individuals who allegedly owe back taxes.

"This is a once-in-a-lifetime opportunity for those who have tax obligations – nonfilers, evaders and delinquents – to come in and settle up with no recriminations, penalties or legal repercussions," Jackson said.

Evening Gazette - Nov. 21, 1984

'Once-in-a-lifetime' state program nets $2.6 million

Ottaway News Service

BOSTON — The first month of a special tax amnesty program has produced over $2.6 million for the state treasury.

More than 30,000 people from 13 states have inquired about the program, generating payments ranging from $2.07 to $375,000, state revenue officials said Friday. The calls have come from clergy, convicts, operators of small neighborhood stores and executives of major corporations traded on the New York Stock Exchange.

Individuals and businesses have until Jan. 17 to pay back taxes and interest charges and avoid penalty charges and criminal action.

Revenue Commissioner Ira A. Jackson said the amnesty period represented a "once-in-a-lifetime" opportunity for non-filers, evaders and delinquents to come in and settle their tax obligations. Tax evasion became a felony last July 1 with stiff jail terms and fines.

According to Jackson aides, one 55-year-old man who had never filed a state income tax return took advantage of the amnesty program because "I guess my conscience got the better of me." A man doing time in a state prison had similar thoughts. "It's about time I settled this account as well," state officials quoted him as saying.

The officials also cited the case of another man who was told in 1975 that he had only six months to live and decided then to stop paying taxes. Although the man's doctor has since died, the man himself is still alive and felt it was time to catch up with his filings.

Jackson said 200 auditors and tax collectors are being added to his department's Criminal Investigation Bureau. "We're also putting in new systems and computer equipment to make our personnel more effective and to expand our matches of IRS data and our computerized tapes of financial data," he said. "Very simply, the chances of getting caught are greater and the consequences once caught are far more serious than ever before."

The revenue chief said people should move quickly to take advantage of the amnesty program because interest charges continue to accumulate at a rate of 18 percent. Those charges must be paid in full along with the original tax bill for the amnesty provisions to be effective.

The Beverly Times - Nov. 21, 1984

Amnesty offer popular

By JOAN FALLON
News Statehouse Bureau

BOSTON — They are of all stripes — businessmen and prison inmates to lawyers and retired folks. They have joined the ranks of those taking advantage of the state Revenue Department's last chance amnesty period for tax evaders and delinquents.

According to Revenue Commissioner Ira Jackson, two prison inmates, one from the Massachusetts Correctional Institution at Norfolk and one from the federal prison in Danbury paid up in accordance with the no interest or penalty

(Continued from 1A)

to each of the 120,000 people on the state's delinquent tax list.

"A lot of people have welcomed the opportunity to avoid recrimination and potential prosecution which may come their way in the future," Jackson said, calling the response so far "extremely encourging."

The plan is part of the department's crackdown on delinquent taxpayers which includes use of a more sophisticated computer system, better at finding evaders.

The department can now also cross check returns with the Internal Revenue Service.

The size of its criminal investigations bureau has been doubled.

"It is now more likely someone will get caught and the consequences are more severe than in the past," Jackson said. "There are tens of thousands of Massachusetts residents who know they have not honestly disclosed their income. I sincerely suggest they step forward and settle up before we come looking for them."

Under the terms of the three-month amnesty, individuals and corporations making full payment of back taxes and interest will have all penalty charges waived. In addition, those who have not filed required Massachusetts tax returns or are guilty of other forms of tax evasion, such as underreporting income or overreporting deductions, have been promised the department will not refer their cases for criminal prosecution if they now make full disclosure and meet all filing and payment obligations.

The maximum criminal penalties for tax evasion have been increased to five years imprisonment and fines up to $100,000 for individuals and $500,000 for corporations. The penalty charges are one-half percent a month for late payment and a full percent for late filing. Each goes to a maximum of 25 percent of the amount of the tax due and therefore can add 50 percent to the original liability.

Tax evasion became a felony crime in Massachusetts July 1.

The numbers to call to begin the amnesty process are 491-0838 or toll free 1-800-521-6596.

One part of the department's crackdown has involved seizure of business which are tax delinquent.

The department, however, has run into a roadblock with the bankruptcy laws. As a result, it has had to take the locks off three area restaurants Callahan's in Wayland and Newton and Diamond Jim's in Northborough.

amnesty which runs through Jan. 17.

Another late-comer is a Lexington man who eight years ago was diagnosed as having terminal cancer but who has since recovered and outlived his doctor. The man did not pay taxes for those eight years feeling the end was near, but now has settled.

An elderly man who was self-employed and never paid taxes for 43 years brought a friend who was ready to post bail if need be. There was no need.

One revenue department tax examiner helped a delinquent taxpayer fill out an amesty form on I-95 in Seekonk. The tax examiner had stopped to help the individual change a tire.

The department even received a check for $2.07 from a Chelsea resident who wanted his account 100 percent perfect.

So far, the department has collected $1.3 million in back taxes through the three-month amnesty plan which began Oct. 17. It has received 17,822 phone calls.

There are still, however, millions and millions of dollars still owed to the state.

Certified letters explaining the amnesty program have been sent

(Continued on 10A)

Middlesex News - Nov. 13, 1984

First state amnesty program for tax delinquents productive

By Curt Brown
Staff Reporter

Emphasizing that the chances of getting caught and the fines are now greater, state Revenue Commissioner Ira A. Jackson urged individual and corporate tax delinquents to take advantage of the state's first ever amnesty program in an interview this week at the *Herald News*.

Tax evasion became a felony in Massachusetts as of July 1. The maximum criminal penalties have been increased to five years imprisonment and fines up to $100,000 for individuals and $500,000 for corporations.

"As the ground rules change, as the penalties get more severe and the crackdown escalates, we wanted to give people this last chance to come in and settle once and for all, without penalties, prosecutions, or further recriminations," he said, explaining his reasons for initiating the amnesty program.

The Revenue Department's tax monitoring capability is being beefed up substantially. This will become evident following the expiration of amnesty on Jan. 17, said Jackson.

Ira A. Jackson

About 200 new employees, including auditors, tax collectors and criminal investigators, are being added to the department's staff.

Under the current amnesty period, individuals and corporations making full payment of back taxes and interest will have all penalty charges waived, Jackson stressed.

Also, those who have not filed required state tax returns or are guilty of other forms of tax evasion, such as underreporting income and overreporting deductions, have been promised that the department will not refer their cases for criminal prosecution if they now make full disclosure and meet all filing and payment obligations, he continued.

The revenue department can now use its authority to revoke the licenses of professionals, excluding lawyers, who are in violation of the tax law. Lawyers are "officers of the court," he said, and are not subject to punitive action by the revenue department, he said.

However, Chief Justice Edward Hennessey of the state Supreme Judicial Court has been asked by the Revenue Department to police tax delinquency among the state's legal community.

The three-month amnesty program has already enabled the state to collect $1 million in back taxes during the first three weeks, he said.

Jackson mentioned that the state expects to collect "several million in back taxes prior to the Jan. 17 amnesty deadline.

There are other indications that the amnesty program is reaping some success, he explained. "One person came into the office and requested 43 years of back tax forms."

He said that "a lottery winner who failed to file taxes for 10 years" has now complied with the law, he said, stressing that the person will now never have to worry about prosecution for not filing.

"Now that person never has to look back," he stated.

Revenue department officials are hopeful of making a dent in its delinquent tax accounts, he said. The state has on its books "about $300 million in delinquent taxes. Some of it is uncollectable. This applies to bankruptcies and cases where the delinquent parties have either moved to other states or are currently in prison, he said.

There are five toll-free telephone lines for statewide use at 1-800-521-6506. A special amnesty unit will be working the phones 10 hours a day, Monday through Friday, and 10 a.m. to 4 p.m., on Saturdays until Jan. 17.

Cape Cod Times - Nov. 12, 1984

States give tax cheats one last chance to 'wipe slate clean'

By Warren Richey
Staff writer of The Christian Science Monitor

Boston

For most it is a question of conscience . . . or fear.

The list includes an Arizona-based FBI agent, a Missouri insurance company, and two Massachusetts nuns. All voluntarily turned themselves in. They were all tax delinquents.

In the broadest tax-amnesty programs ever initiated in the United States, Arizona, Missouri, North Dakota, and Massachusetts have offered to waive criminal charges and fines for residents who have failed in the past, for whatever reason, to pay their state taxes.

The action comes at a time when budget officials are scrambling to raise extra revenue to help fatten skimpy state budgets. The budgets have been particularly hard hit during the past recession and as a result of Reagan administration cuts in federal funding to states.

The amnesty programs are designed to encourage the payment of back taxes while at the same time boosting the number of active taxpayers on the tax rolls in the participating states. It is also seen as a last-chance, one-time-only opportunity for tax delinquents to settle up their back taxes and interest before the states initiate large-scale crackdowns on tax cheats.

The offer to, as one official put it, "wipe the slate clean," has been taken up by more residents than any of the state tax officials had anticipated.

It was considered so successful in North Dakota that the amnesty deadline has been extended by a month, from Oct. 31 to Nov. 30.

In Massachusetts, where a three-month tax amnesty began Oct. 17, tax officials have already received 10,000 inquiries and payments of more than $750,000 in back taxes.

Among those who turned themselves in was an 80-year-old electrician who hadn't filed a state tax form for 43 years. A little wary of the sincerity of officials in a state once nicknamed "Taxachusetts," the electrician asked a friend to wait outside the tax office with bail money — just in case.

Two nuns in the Bay State took advantage of the tax amnesty to pay back taxes for a meals operation they ran.

In Missouri, an insurance company startled tax officials when it paid back $750,000.

No one is quite sure who first thought of having a tax amnesty, but Arizona is said to be the first state in the country to offer such a broad program. The amnesty, which ended last January, was part of the "Arizona Tax Hunt," a statewide crackdown on tax delinquents that netted the state more than $35 million in previously unpaid taxes. The amnesty is credited with bringing in $6 million of that total.

Greg Smith of the Arizona Department of Revenue says the idea of an amnesty was born in a burst of inspiration on an Arizona Interstate. "I was driving down the freeway one day, and I was thinking how the library has a grace period for overdue books. And I just thought, why not try it with taxes?"

'I was thinking how the library has a grace period for overdue books. And I just thought, why not try it with taxes?' says Greg Smith of the Arizona Department of Revenue

The idea has sparked a hot debate among some state tax officials, even in the states that have held amnesties. For starters, the US Internal Revenue Service opposes the concept of holding a tax amnesty. In addition, there are ethical questions of whether it is right to overlook carte blanche what in many cases amounts to years of law breaking.

And there is the question of whether amnesty offers are fair to honest taxpayers. There are also concerns that offering an amnesty might encourage residents to withhold their taxes in anticipation of future tax amnesties.

But officials in the states that have held amnesties stress that the amnesty is a one-time opportunity — it will not be repeated. They also stress that it is only one part of a wider enforcement effort. The amnesty has been offered as a "last chance" before state tax collectors pull out all the stops against tax evaders.

But there is another side to tax delinquency. Not all tax delinquents are deliberately trying to cheat the state. Some are chronic procrastinators — others simply can't afford to pay.

According to North Dakota tax commissioner Ken Conrad, very few "big fish" took advantage of his state's tax amnesty.

Though he expects to collect between $65,000 and $100,000 in back taxes and interest, the average liability returned to the state was about $100 per tax return.

The amnesties in Arizona, Missouri, and Massachusetts mark efforts in those states to launch revitalized tax collection and enforcement programs — where almost none existed before. The investigative sections of the revenue departments in those states have been completely overhauled and beefed up with new personnel and computerized systems of tracking tax cheats.

"It's a whole new ball game," says Richard King, Missouri's director of revenue.

"Not one person has served a single day of time for tax evasion in the Commonwealth of Massachusetts — we hope we are going to change that," says Thomas D. Herman, first deputy commissioner at the Massachusetts Department of Revenue.

Indeed, get-tough steps are already being taken. Tax evasion has been upgraded from a misdemeanor to a felony. In addition, the state makes public the names of persons and corporations owing $5,000 or more in back taxes, and has threatened to revoke the government-authorized business licenses of people owing back taxes.

In September, Massachusetts brought indictments against seven individuals and eight corporations in cases involving unpaid taxes totaling more than $1 million.

"Slowly but surely it is getting through to people that tax evasion is not a victimless crime," says Harry Durning of the Massachusetts Department of Revenue.

Christian Science Monitor-Nov. 8, 1984

Amnesty Program for Delinquent Taxpayers Established (Mass.).—The Commissioner of Revenue has established a three-month amnesty period—from October 17, 1983 through January 17, 1984—during which he will waive penalties imposed for failure to file returns or for late payment of tax.

To be eligible for amnesty, taxpayers are required to file a "Request for Amnesty" form by January 17, 1984, and must voluntarily file all delinquent returns or, if applicable, file amended returns to report income not included on original returns or to correct insufficient or incorrect original returns. Taxpayers must pay in full all taxes and interest owed for all filing periods within the time specified by the Commissioner, or by January 17, 1984, whichever is earlier.

The Commissioner will not grant amnesty to a taxpayer who is the subject of current state tax-related, criminal investigations or court prosecutions, nor will he waive penalties attributable to any one filing period if the taxpayer has outstanding liabilities for other periods. Further, any tax returns and payments which become due during the three-month amnesty period are not eligible for amnesty. Technical Information Release 83-2, Massachusetts Department of Revenue, October 14, 1983.

Thousands paying up under tax amnesty

By Andrew Blake
Globe Staff

The last time he paid his Massachusetts income tax, people were humming the hit tune "South of the Border" and Jimmy Foxx hit 36 home runs for the 1940 Red Sox.

The man, now in his 80s, whom the state Revenue Department will not identify, walked into the agency's Boston offices last week to confess and to take advantage of a three-month tax amnesty program that began Oct. 17.

"After failure to pay taxes for 43 years, he was expecting the worst. He was so frightened that he left a friend outside with bail money in case he was arrested," said Ira A. Jackson, state revenue commissioner.

"We assured him he wouldn't be arrested – that's part of the amnesty program – and then we had to go into the archives to find 43 years of income tax forms," Jackson explained.

In the two weeks since the start of tax amnesty, several thousand individuals and businesses, said Jackson, have applied for amnesty and have paid $106,000 in back taxes while promising payment of another $500,000.

"We'd like to see it reach at least $20 million by the time the program ends on Jan. 17. It's a once-in-a-lifetime opportunity, and people are responding better than expected," he added.

That $20 million would be about 10 percent of the $200 million in unreported taxes and delinquent taxes owed to the state, the Revenue Department estimates. An unknown amount of that $200 million is considered uncollectible because individuals have died or companies have moved or gone out of business.

> We're hoping they'll take advantage of the amnesty.
>
> Ira A. Jackson

Under the terms of the amnesty, individuals, corporations and companies that make full payment of back taxes and interest will not have to pay penalties. They will also avoid criminal prosecution if they make full disclosure and pay all their obligations, Jackson explained.

Harry M. Durning, Revenue Department spokesman, said that as of the middle of last week, when a tally was taken, about 7000 calls had been received by the agency about the amnesty program.

The calls included inquiries from people living in four foreign countries and seven states. More than 5000 calls were received at the Revenue Department's central office in Cambridge alone.

All state taxes qualify

The tax amnesty, Durning explained, applies to all state taxes, including income, sales, corporate excise, withholding and meals. It applies not only to those who have failed to report altogether but also to those who have under-reported income, claimed excessive deductions or are delinquent in paying past taxes.

The amnesty is not available to those who are already the subjects of tax-related criminal investigations or prosecutions. While the Revenue Department will not seek prosecution of those applying for amnesty, it reminds them that the state and the federal Internal Revenue Service, under an agreement, share tax information.

Jackson also noted that, "This is not the time to try to make a deal on a payment schedule. Amnesty requires that taxes and interest be paid in full by certified check or money order."

"Many of the calls reflect uncertainty. People want assurances that they will not be prosecuted if they pay up," said Jackson.

Other calls, he said, indicate that large tax payments can be anticipated.

"Lawyers and accountants for other lawyers, for example, have made inquiries using hypothetical cases. A number of those people indicated that tax payments in six figures could be expected," he added.

Jackson attributed much of the success of the program so far to the Revenue Department's tax enforcement program that has led to the closing of restaurants, seizures of airplanes, yachts and business warehouses to force payment of allegedly delinquent taxes.

Also, he said, "People are beginning to take us seriously because, with our computerized information systems the chances of getting caught are now much greater."

Notices sent to 120,000

The Revenue Department sent out notices of amnesty to 120,000 persons and businesses thought to owe taxes, half of whom have filed federal tax returns but not state tax returns.

"We're hoping they'll take advantage of the amnesty. This is not a revenue gimmick. When it ends on Jan. 17, that's the end of it," Jackson emphasized.

"It's more pleasant when compliance is voluntary. Last week an appliance store paid us $7000 in sales taxes they had collected over the past several years but had not sent in," he said.

In another case, a corporation sent in a check for more than $100,000 in delinquent corporate excise taxes and another company mailed in $15,000 it owed after failing to file for 22 years.

"Another payment came from a person who hit the lottery and had received 10 years' of payments without paying state income tax. The tax money is coming in from cab drivers and from people who are very well off financially," said Jackson.

It is also coming in from people who do not owe sums of money that would keep one up at night.

One check came in for a delinquent income tax payment of $2.07 – the smallest payment to date under the tax amnesty.

Massachusetts Reaps Money in Tax Amnesty

BOSTON, Oct. 23 (AP) — As Massachusetts' three-month amnesty for tax evaders took effect last week, two nuns admitted that they had not been paying state taxes on meals.

An electrician admitted he had not filed income tax returns in 40 years. Some executives surrendered more than $10,000, saying their company had evaded excise taxes for 22 years.

The State Revenue Commissioner, Ira Jackson, said that in the first four days 2,200 people called on the tax department. In all, he estimated $100,000 in back taxes were paid last week. "That's just a fraction of what I think those 2,200 inquiries represent," he said.

- New York Times - Oct. 24, 1984 -

...AND FORGIVE ME FOR $5.83 IN UNREPORTED TIPS IN 1937... AND GOODNESS ME! IN 1938 I PAID NO TAX ON MY INCOME FROM BABYSITTIN' ...THEN CAME 1939...
MASS. REVENUE DEPT.
GRANLUND ©'84 THE MIDDLESEX NEWS

MASS. TAX DELINQUENTS GIVEN AMNESTY PERIOD.

Middlesex News - Oct. 18, 1984

State officials declare 'last chance' tax amnesty

BOSTON (AP) — State revenue officials have declared a three-month amnesty period for tax evaders and delinquents, saying it was a "last chance" to pay up and have penalty charges waived.

Revenue Commissioner Ira Jackson said the amnesty period, which begins Monday, also will give tax delinquents an opportunity to avoid criminal penalties for state tax evasion, which is now a felony crime punishable by five years imprisonment and a $100,000 fine for individuals.

"As the ground rules change, as the penalties get more severe and the crackdown escalates, we wanted to give people this last chance to come in and settle up once and for all, without penalties, prosecutions or further recrimination," Jackson said in a statement that was embargoed for use until Sunday.

Under the amnesty, individuals and corporations making full payment of back taxes and interest will have all penalty charges waived. Those under investigation by the department are not eligible.

The current penalty charge is 18 percent annual interest on a late filing and 12 percent a year for late payment.

Jackson said individuals and corporations who have not filed required Massachusetts tax returns, underreported income or overreported deductions will not be referred for criminal prosecution by the state if they now make full disclosure and meet all filing and payment obligations.

However individuals will still have to pay interest charges on delinquent amounts.

Also, state officials warned they have an agreement to exchange tax information with the U.S. Internal Revenue Service, which does not have an amnesty program in effect.

"It's a new experience for us," said Harry Durning, a spokesman for the revenue department. "There's no book to turn back to and see how we did it the last time," he said.

The amnesty is one of many steps taken by the Dukakis administration to increase revenue through better tax-collecting procedures.

Since July 1, Jackson said his department has collected more delinquent taxes from seizures, levies and liens than in any comparable period in state history.

Aided by the coommonwealth's new revenue enhancement and protection statute, more individuals and corporations were indicted on criminal charges for tax evasion in September than ever before, he said.

"We are stepping up our enforcement activities across the board, including a whole new range of computerized cross checks of IRS tapes, W-2 and 1099 tax forms, bank records and personal property holdings such as cars, summer homes, boats and planes," the commissoner said. "We're hiring more auditors and doubling the size of our criminal invetigations bureau."

Another tool effectively used by the revenue department has been the news media. The amnesty announcement was a prime example: Durning admitted the story was held for use in Sunday newspapers partly because more people read that edition than any other during the week.

Revenue officials also have repeatedly tipped off reporters, photographers and television crews when they plan on seizing a restaurant or boat in hopes of havy news coverage that might scare other tax evaders into paying up.

A certified letter explaining the amnesty program is being sent to each of the 120,000 people on the state's delinquent tax list, officials said. Each letter carries a total of the tax liability owed and the discounted amount to be paid under amnesty.

"Clearly the walls are closing in on both evaders and chronic tax delinquents," Jackson said. "We hope everybody who has failed to file or who failed to honestly report income or who is delinquent will take advantage of this amnesty window.

"It will be opened widely, but only once, and only for three months. When our Jan. 17 deadline passes, the window will be firmly shut forever."

Sunday Eagle Tribune - Oct. 16, 1983

'Last chance' amnesty for tax evaders

By Chris Black
Globe Staff

Massachusetts Revenue Comr. Ira A. Jackson is announcing today a "last chance" three-month amnesty period for tax evaders and delinquents to begin tomorrow.

Individuals and corporations who pay back taxes and interest during the 90-day period will be spared criminal prosecution and penalty charges. The amnesty will also be extended to those who have never filed Massachusetts tax returns or who have underreported or overreported income.

"Clearly the walls are closing in on both evaders and chronic tax delinquents," said Jackson in a statement. "We hope everyone who has failed to file or who failed to honestly report income or who is delinquent will take advantage of this amnesty window. It will open widely, but only once and only for three months. When our Jan. 17 deadline passes, the window will be firmly shut forever."

Individuals who are already subjects of criminal investigation or court cases are not eligible for amnesty, state officials said.

The amnesty, the first of its kind in Massachusetts, became a provision of the administration's Revenue Enforcement and Protection (REAP) package, approved earlier in the year, after it was proposed by Rep. Robert B. Ambler (D-Weymouth), vice chairman of the House Ways and Means Committee.

Harry M. Durning, director of communications for the Revenue Department, said a limited amnesty was extended to known tax delinquents in the early 1950s.

The Revenue Department is sending certified letters to 120,000 known tax delinquents to inform them in red letters of an "Offer of Amnesty: a warning and an opportunity."

Five toll-free hotlines will handle queries during the amnesty period. The number is 1-800-521-6596.

Under one of the other provisions of the REAP package, tax evasion became a felony in Massachusetts on July 1. REAP also increased penalties for tax evasion to five years in prison and fines of up to $100,000 for individuals and $500,000 for corporations.

Penalty charges amount to 0.5 percent a month for late payment and 1 percent for late filing and can amount to as much as 50 percent of a delinquent's tax bill. The Revenue Department is in the midst of an aggressive campaign to tighten up collection of tax dollars.

"As the ground rules change, as the penalties get more severe and the crackdown escalates, we wanted to give people this last chance to come in and settle up once and for all, without penalties, prosecutions, or further recriminations," said Jackson.

Massachusetts is one of the first states in the nation to declare such a broad tax amnesty.

Arizona extended a more limited amnesty to individuals and corporations that had never paid taxes for three months at the end of last year. Greg Smith, a spokesman for the Arizona Revenue Department, said that the department received more than $4 million in income taxes from 10,000 individuals during the amnesty period.

"We were surprised by the diversity of the people who came forward," he said in a telephone interview Friday. "They came from every walk of life – psychiatrists, doctors, lawyers, clerks, laborers, ministers, an FBI agent and accountants who prepare others' tax returns.

"We had a surprising number of people filing several years' worth of returns, including some people filing as many as a dozen returns," Smith said.

The state of Missouri is nearing the end of a 60-day amnesty that began on Sept. 1, according to Jerry Hert, a spokesman for the Missouri Revenue Department. The general tax amnesty has been offered only to previously unidentified tax evaders, he said.

He declined to release information on the amount of money received so far. "We did recover a few dollars," he said.

Sunday Boston Globe - Oct. 16, 1984

Senator CHAFEE. Mr. Keating.

STATEMENT OF DAVID L. KEATING, EXECUTIVE VICE PRESIDENT, THE NATIONAL TAXPAYERS UNION, WASHINGTON, DC

Mr. KEATING. Thank you, Mr. Chairman, for the opportunity to appear today. The National Taxpayers Union represents 150,000 taxpayers and we support the concept of a national tax amnesty plan.

With me is Jack Wade. He worked as a revenue officer for the Internal Revenue Service for 8 years, wrote more than 12 IRS manuals on tax collection and enforcement, and is the author of the book "When You Owe the IRS," which was published by MacMillan a couple of years ago.

I'm going to turn my attention directly to the portions of the bill that we think need some improvement, although overall we think it's a pretty good bill.

First of all, it only allows amnesty for tax years ending before December 1983. I think it's fairly obvious that amnesty should be extended to 1984; otherwise, some people could be subject to criminal prosecution for tax evasion or fraud which continued into that year.

Although we think the proposal to provide for a waiver of criminal and civil penalties and 50 percent of interest will be more than enough in most cases, in some cases it won't be enough. The reason why is that a taxpayer probably won't ask for amnesty if his back taxes are simply impossible to pay. One of the reasons is that there is currently no statute of limitations owing on back taxes, even though there is a statute of limitation for prosecution for failure to file a return.

As a solution, we think taxpayers who come forward under the amnesty program should be allowed to enter into a liberal installment arrangement to pay their back due taxes. And, if appropriate, the taxpayer should be eligible to have his tax liability waived, in part or in whole, if it was judged that it would be impossible to pay.

We also think the IRS——

Senator CHAFEE. What was that?

Mr. KEATING. In part or in whole.

Senator CHAFEE. Your first suggestion is to let them pay an installment?

Mr. KEATING. That's correct.

Senator CHAFEE. It seems to me that that is really giving a break to the cheaters. Not only do they pay without interest, without penalty—he pays, what, with half interest under your proposal?

Mr. KEATING. Well, that's under Senator Dixon's proposal.

Senator CHAFEE. What's your proposal?

Mr. KEATING. We think at least penalties should be waived. We have no problem with charging full interest. We feel that taxpayers who can't afford to pay off the taxes in one lump sum ought to qualify for installment arrangements. Otherwise, they will take a look at their back due tax bill and decide they can't possibly afford it and decide not to come back into the system. We think that could be a problem.

We also think the IRS should not share amnesty tax returns with other Federal Government agencies for the purpose of discovering other violations of the law. And we think the IRS should not share amnesty to——

Senator CHAFEE. Well, they don't do that now, do they?

Mr. KEATING. My impression is that they don't, but can if requested, I think this is something that should be further barred under an amnesty program.

Senator CHAFEE. You mean the Drug Enforcement Administration can't come in, for example? Couldn't ask for the information?

Mr. KEATING. That's correct.

Senator CHAFEE. All right. Go ahead.

Mr. KEATING. We also think the amnesty tax return information should not be shared with State or local revenue authorities, which have not instituted an amnesty program of their own. We think the reasons for this are obvious.

Senator CHAFEE. Well, let's just take the case of Massachusetts. Let's say we had a Federal program starting for a 6 month period from June 1 to December 1, 1986. Now Massachusetts completed their program in 1984. What would you do then?

Mr. KEATING. In that case, I would prefer to have the amnesty program err a bit on the liberal side and have a prospective amnesty provision in order to give the time to orient their amnesty programs with the Federal program.

Senator CHAFEE. All right. Go ahead.

Mr. KEATING. Also, the bill provides for a 50 percent across the board increase in penalties. We disagree with this across the board approach. There have been a number of tax law changes recently which have substantially increased penalties, interest charges and reporting requirements, but at the same time little has been done to increase taxpayer safeguards from IRS abuse.

We think it would be wise to not increase penalties which have already been increased since 1981. We also strongly recommend adoption of the Taxpayers Procedural Safeguard Act that Senator Grassley has introduced this year.

That concludes my statement, Mr. Chairman. Thank you for the opportunity to appear today.

Senator CHAFEE. Thank you, Mr. Keating. In your statement you say something about an amnesty program to generate $7 billion or more in tax revenues. How did you arrive at that?

Mr. KEATING. Well, I looked at the Massachusetts experience and extrapolated to the Federal Government level if we had the same response. And that was the number I came up with. Mr. Herman came up with a number a bit higher than mine. I think the estimates are reasonably close.

Senator CHAFEE. Would you agree with Senator Dixon that this should clearly be made a one-shot deal?

Mr. KEATING. I think it would be best to make it a one-shot deal.

Senator CHAFEE. Well, you say you think it might be best. Why do you hesitate?

Mr. KEATING. Well, I think part of the population that may come forward under a tax amnesty are people who may be illegal aliens who have since become citizens; or people who may have businesses that deal in cash and have been in business a long time. And these

situations could, again, crop up in the future where people for some reason who are outside the tax system would like to come in. Currently, I understand from tax attorneys who specialize in these things—and I've also read this on many different occasions—that it is often possible to come forward voluntarily with expert guidance, and usually escape criminal prosecution from the IRS. But the person of moderate means does not know how to go about doing this. So there may be a way of designing a permanent program, but at this point I think it's best to proceed with a one-shot program.

[The prepared written statement of Mr. Keating follows:]

NATIONAL TAXPAYERS UNION

A NONPARTISAN, NONPROFIT ORGANIZATION DEDICATED TO THE PUBLIC INTEREST

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Statement of

David L. Keating

Executive Vice President

National Taxpayers Union

Before The Subcommittee On Taxation And Debt Management

Committee On Finance

U.S. Senate

On S.203,

A National Tax Amnesty Plan

June 24, 1985

Mr. Chairman, and members of the Subcommittee, thank you for the opportunity to present testimony on S.203, a national tax amnesty plan. The National Taxpayers Union represents 150,000 taxpayers nationwide and has long been concerned with the tax burden and taxpayers' rights.

We support the concept of a national tax amnesty plan, but have several recommendations on how to improve S.203.

Appearing with me is Jack W. Wade, Jr., an advisor to the National Taxpayers Union. He worked as a revenue officer for the Internal Revenue Service for eight years and wrote more than 12 IRS manuals on tax collection and enforcement. He is author of the book When You Owe the IRS, published in 1983 by Macmillan Publishing Company.

There is evidently a de-facto voluntary disclosure "amnesty" policy which is known to sophisticated attorneys who specialize in tax fraud cases. But it is doubtful that the typical citizen is aware of such an IRS policy, or if aware, capable of taking advantage of it. Instituting an amnesty program would end this double-standard.

I hope the Congress will seriously consider instituting a taxpayer amnesty program as part of a tax reform package. This would probably be the best time to institute an amnesty program. The publicity which will accompany institution of the new tax reform system would also help bring attention to its amnesty provisions.

An amnesty program could generate $7 billion or mor in tax revenues per year. It could help insure against a possible loss tax revenues from an inaccurate estimate of the revenues generated und a tax reform plan. Alternatively, some of these additional revenu may also be used to reduce tax rates further.

An amnesty program could benefit both the IRS and taxpayers. A carefully

designed amnesty program would benefit the IRS by bringing in untold billions of dollars from the underground economy into the light. The non-filer problem could be significantly reduced.

In the book When You Owe the IRS, Mr. Wade gives an example of a taxpayer who had not filed his returns for 11 years. Once the first filing deadline had passed, the taxpayer became too frightened to file in the following years. Even so, he would have been owed refunds for a total of $700 for the first six years. Then for the next three years, he owed money while in the last two years he was again due for a refund, which in this case was large enough to pay all the back taxes. That year he came in and filed the return with Wade, who was then an IRS employee. The taxpayer "admitted that this problem had been bothering him for all 11 years. He had suffered two heart attacks, an ulcer, a nervous breakdown and countless sleepness nights worrying about what would ever happen if he got caught."

No doubt there are many taxpayers who might surface but are scared about what the IRS might do to them. An amnesty program would allow taxpayers to voluntarily disclose past due taxes without worrying about criminal prosecution and jail.

Some people have suggested that no legislation is necessary. We disagree. A key element for success of an amnesty program is assurance that no criminal prosecution will result. Without legislation, taxpayers may fear that the IRS will retroactively revoke an amnesty policy. But a statute would replace that beyond the power of the IRS.

Let's look at the provisions of S.203, the Federal Tax Deliquency Act of 1985.

The proposal provides for a six month amnesty period which would begin the first July after the date of enactment of the bill. Six months should give

taxpayers plenty of time to come forward. The six months which cover July 1 to December 31 of each year are typically not as busy for the IRS, and would be the best time of the year for IRS personnel to administer such a program.

The bill would allow amnesty for all open tax years ending by December 31, 1983.

It would be better to extend the amnesty to all tax years ending December 31, 1984. Otherwise, someone who has been out of the tax system for many years prior to and including 1984 could still be subject to criminal prosecution for tax evasion or tax fraud in 1984. Ideally, the amnesty should cover tax years which end by December 31 of the tax year which ended prior to the date of enactment of the bill.

The bill provides amnesty from criminal and civil penalties and 50% of the interest penalty owed. We think that this amnesty is reasonable, but it may not be enough. Why? Taxpayers probably won't ask for amnesty if their back taxes are impossible to pay.

A statute of limitations on owing tax should be considered. Some taxpayers may find it financially impossible to come forward voluntarily and pay their back due taxes. There is currently a statute of limitations of six years on prosecution for failure to file a return but no limitation on owing taxes. It may be worthwhile to put a statute of limitations which would limit tax liability to the six most recent years of liability or net worth, whichever is larger. This would still enable the IRS to collect a large sum of monies owed, while not proving to be an impossible amount of tax to pay.

Taxpayers who come forward under the amnesty program should be allowed to enter into a liberal installment agreement to pay their back due taxes, and if appropriate, be eligible to have their tax liability waived if it is judged that it would be impossible to pay.

It would be a shame if many taxpayers did not take advantage of the amnesty program because they thought they would have to pay all the taxes due in one lump sum. An installment agreement which is binding on the IRS would certainly be an appropriate addition to the bill.

Any individual or corporation would be eligible for the amnesty program, with exceptions for those currently involved in adminstrative or judicial proceedings, those under criminal investigations where the IRS has referred the matter to the Justice Department before the amnesty period begins and those who make false or fraudulent representations in attempting to take advantage of the amnesty. The amnesty would also cover all federal taxes. We agree with the eligibility criteria for the proposed amnesty as well as allowing amnesty to cover all federal taxes.

There are other significant omissions from this bill. The IRS should not share amnesty tax returns with any other federal government agency for the purpose of discovering other violations of law. Why would any taxpayer come forward to the IRS if he could be prosecuted on other federal grounds.

The IRS should not share amnesty tax return information with any state or local tax revenue authority which has not instituted an amnesty program. Otherwise, because of the exchange program between the IRS and state tax collection agencies, taxpayers may be subject to prosecution at the state and local level by disclosing federal violations to the IRS. State and local authorities should be given time to implement programs. If the states do not develop similar programs, they should not have access to this new data unless the taxpayer agrees with the disclosure.

The bill provides for 50% across-the-board increase in tax penalties. We strongly disagree with this across-the-board approach. Recent tax law changes have already substantially increased penalties, interest charges, and

reporting requirements. At the same time, little has been done to protect taxpayers from unreasonable IRS actions or to provide for redress for unfair IRS actions.

At the very least, any penalty which has been changed since 1981 should be exempt from the 50% increase. There is no need to revisit the already increased penalties provided for by recent tax laws.

We strongly recommend that Congress pass S.453, the Taxpayers Procedural Safeguards Act which has been introduced by Senator Charles Grassley. It would be a serious mistake to allow the IRS to impose much higher penalties on taxpayers without building additional safeguards into the system. Potential for serious IRS abuse already exists and does not need to be exacerbated by a dramatic increase in tax penalties.

No doubt, supporters of increased penalties will say that penalties are a necessary part of the amnesty program, providing the complementary "stick" to the amnesty "carrot". They will note that state programs have in many cases increased the penalties. But some of these states had low penalties for tax evasion or revenue enforcing departments which had no respect. Certainly, this is not the case with the IRS.

It would be better for the IRS to emphasize that failure to take advantage of an amnesty program would substantially add to the likelihood of successful prosecution of tax evasion because of the additional proof of willfulness on the part of the taxpayer. Emphasis could also be placed on the vast increase in information the IRS receives, and its computer modernization program (although this year the IRS made their computers appear to be a weakness, not the strength that they are).

The bill also authorizes money to administer and publicize the amnesty program. This is very important. A special legislative report by the

National Conference of State Legislatures noted the importance of publicity, calling it "a key to success... Press releases and public announcements are usually not enough. Paid advertisement in major newspapers, magazines, billboards, television spots or free brochures are utilized ..." in the more successful amnesty programs.

Mr. Chairman, we hope the Subcommittee and the U.S. Congress will approve an amnesty plan. We would be happy to assist you, other members of the Subcommittee, and staff on this important issue.

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Senator CHAFEE. Mr. Herman, you made it very clear in your testimony that clearly it should be a one-shot program. Right?

Mr. HERMAN. Absolutely, Senator, we believe it should be one shot only.

Senator CHAFEE. How did you work it in Massachusetts with the duration of the amnesty and the realization that the legislation was moving through the legislature, that an amnesty was coming up so therefore people could relax and not pay their taxes for a while?

Mr. HERMAN. Well, we were granted authority by the legislature in July of 1983 to have a 3-month amnesty at any time at the discretion of the Commissioner. We didn't tell people ahead of time when it was going to be. In a sense, we tried to spring it on people with some surprise. In leading up to amnesty—and this was the key element of it—we had a very tough crackdown on delinquents or evaders so people would take us seriously when we extended the hand of friendship, of compassion, of humanity and said, OK, here's your last chance; we can be very tough, here's your chance to come on in and settle up.

The Commissioner then declared this 3-month amnesty period from late 1983 to early 1984. Again, it was a 3-month period mandated by the legislature. And when we cut it off, we then cracked down hard again.

Senator CHAFEE. The statistics you gave were extraordinary. You had 10,000 people lined up the last day.

Mr. HERMAN. Yeah. It's the psychology of an amnesty. It is very interesting. In the early days of the amnesty, we didn't get a lot of calls on the telephone, a lot of people writing in. We had a number of massive mailings to our delinquent file, the file which we had created through matching Massachusetts' Federal filers who were not filing Massachusetts' State tax returns. We engaged in a massive publicity campaign to let people know what amnesty was and then to our great surprise and our delight, literally on the last—most of the money came in on the last few days of the amnesty. And there were 10,000 people lined up in Boston and in our district offices around the State on the last day of amnesty in January of 1984. It was remarkable.

Senator CHAFEE. Gentlemen, I'm going to ask you to stay there at the table and ask Mr. Ross who is the Treasury witness, the Deputy Tax Legislative Counsel for the Department of Treasury, to testify.

Mr. Ross, why don't you come right up and sit there. And I suspect you won't favor this, and I might ask the others for comment on your testimony.

Do you have a statement, Mr. Ross?

Mr. Ross. I do, Mr. Chairman.

Senator CHAFEE. You have copies of it?

Mr. Ross. Yes. We have given copies to your staff.

Senator CHAFEE. All right. Why don't you go to it, Mr. Ross?

Mr. Ross. OK. Thank you, Mr. Chairman.

STATEMENT OF DENNIS ROSS, DEPUTY TAX LEGISLATIVE COUNSEL, DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Mr. Ross. I'm pleased to present the views of the Treasury Department on two bills currently before the Finance Committee: S. 203, a proposal to provide a one-time amnesty from criminal and civil tax penalties and also for one-half of the interest owed for certain taxpayers who paid previous underpayments of Federal tax during the amnesty period; also S. 205, a bill that would permit taxpayers to designate one dollar of any overpayment of income tax or to contribute other amounts for payment to a national organ transplant trust fund.

If I may, I will turn first to the question of the taxpayer amnesty.

Senator CHAFEE. I'll tell you, why don't you hold up your views on that organ transplant thing because we are not going to have a hearing on that until July.

Mr. Ross. I will do that.

Senator CHAFEE. And we might get you back or have your statement at that time.

Mr. Ross. Fine. I will do that.

Senator CHAFEE. Let's stick with the tax amnesty.

Mr. Ross. I will, Mr. Chairman.

Mr. Chairman, no problem facing our tax system today is more pressing than the need to maintain voluntary compliance with the tax laws. Our revenue-raising efforts depend upon taxpayers honestly reporting their income and paying their fair share of tax.

Although the great bulk of American taxpayers are honest, the facts concerning the level of taxpayers noncomplying are disturbing. Some estimates of the tax revenues to be lost in 1985 alone, due to noncompliance by taxpayers engaged in legal activities, exceed $90 billion, roughly half the current budget deficit. The percentage of noncomplying individuals has been estimated at 20 percent, and that percentage has been estimated to be increasing. And as much as 10 percent of all corporate income may be going unreported.

The Treasury Department has been actively exploring ways to close the so-called tax gap between actual tax liabilities and reported tax liabilities. In that process, we have given careful consideration to a taxpayer amnesty, an approach, as you have heard today, that has been tried recently by a number of States.

In a typical amnesty program, taxpayer amnesty has been coupled with a proposal for tougher enforcement of the tax laws. Advocates of amnesty believe that the combined incentives, the so-called carrot and stick, of reduced tax liability and more aggressive future enforcement will bring forward many taxpayers who have illegally concealed their income and, thus, raise significant additional tax revenue.

Our analysis of various amnesty programs has led us to conclude that we should not enact taxpayer amnesty at the federal level. Our conclusion is based principally on concerns over the actual and perceived fairness of a Federal amnesty program, and, thus, over the possible adverse effects of amnesty on taxpayer morale and compliance.

In addition, we question whether an amnesty program at the Federal level would raise significant additional revenue in the short run, and, indeed, we are concerned that amnesty at the Federal level would be a long-run revenue loser.

The issue of fairness must be paramount in any consideration of an amnesty program since taxpayer compliance with the tax laws ultimately rests on taxpayers' belief that those laws are fundamentally fair. As this committee is well aware, there is much discussion at present over how we may improve the fairness of the tax system. The administration has recently proposed a comprehensive reform of the tax system for fairness, simplicity and growth. We believe that the strong public support for that proposal reflects a widespread belief that the fairness of the system can and must be improved.

We have serious concern, however, that the enactment of a Federal amnesty program would raise additional doubt in the public's mind over the fairness of the current tax system.

The great majority of taxpayers, those that dutifully comply with the law and have paid their fair share of taxes, are likely to feel cheated when others who knowingly broke the rule are allowed to escape punishment. And, indeed, to the extent that interest on overdue tax liabilities is forgiven, as S. 203 proposes, profit from their wrong.

This natural commonsense reaction would inevitably lead to a certain cynicism about the tax laws and about the importance of complying with them in the future.

We cannot overstate the threat such attitudes pose to a tax system that depends in the long run on taxpayers honestly reporting their own liability for tax.

Senator CHAFEE. Mr. Ross, why don't you skip around a bit until you get to the things you really want to stress here, although this is a good statement.

By the way, Massachusetts collected the full interest, didn't you?

Mr. HERMAN. We collected the full interest, yes.

Senator CHAFEE. I know what Senator Dixon recommended, but I'm not sure what Illinois did.

Go ahead, Mr. Ross.

Mr. Ross. Mr. Chairman, let me turn just briefly to the question of the effect of an amnesty program on revenues. It is the success of several State amnesty programs in increasing tax revenues that has caused many to ask whether an amnesty program would have the same effect at the Federal level. Our studies reveal no evidence that a Federal amnesty program would raise significant additional current revenue.

The State amnesty programs have varied in a number of respects, but the greatest success seems to have been achieved where amnesty is accompanied by a significantly increased risk that tax delinquents will be apprehended in the future. Many States that have tried amnesty did so at a time when their enforcement of their own tax laws was somewhat lax. As a consequence, it is not clear that the additional revenues collected would not have been collected had tougher enforcement measures been in place all along

As you know, in contrast with many state revenue systems, the Federal Government has pursued aggressive enforcement policies in this area for many years. Thus, we question whether a Federal amnesty program would provide a significant additional incentive for those currently outside the law to come forward.

We are also concerned about the long-term revenue effects of a federal amnesty program. A taxpayer amnesty, even if described as a one-time program, would lead taxpayers to wonder whether it might be repeated, and, thus, to question the importance of continued compliance with the tax laws.

Somewhat perversely, the more successful the program in raising short-term revenue, the greater the likelihood that taxpayers would expect the program to be reported. We believe the tax system's ability to raise revenue must ultimately suffer from any program that casts doubt on the need for and importance of taxpayer compliance with the law.

An amnesty program would gamble with our tax system's most important asset—the willingness of taxpayers to obey the law. And that willingness turns in large part on taxpayer's belief that non-compliance will not be tolerated. The small and very likely short-run revenue gain that might come from an amnesty program is not worth the risk that taxpayers' belief in the integrity of the system would be weakened.

In conclusion, let me say that our judgment that a Federal amnesty program would be unwise should not be taken to indicate a lack of concern with the existing problem of taxpayer non-compliance. To the contrary, the problem of the tax gap requires and is receiving in-depth study. As you know, we believe that many problems concerning non-compliance are rooted in the unfairness and complexity of the current tax laws. That is why it is imperative that we continue on the road to fundamental tax reform. Such reform, if it improved the fairness of the system and lowered tax rates would be a significant step in our efforts to improve taxpayer compliance and reduce the size of the tax gap.

Mr. Chairman, that concludes my prepared remarks.

[The prepared written statement of Mr. Ross follows:]

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STATEMENT OF
DENNIS ROSS
DEPUTY TAX LEGISLATIVE COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT OF THE
SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Subcommittee:

I am pleased to present the views of the Treasury Department on two bills currently before the Finance Committee: S.203, a proposal to provide a one-time amnesty from criminal and civil tax penalties and for one-half of the interest owed for certain taxpayers who pay previous underpayments of Federal tax during the amnesty period; and S.205, a bill that would permit taxpayers to designate $1 of any overpayment of income tax, or to contribute other amounts, for payment to a National Organ Transplant Trust Fund. If I may, I will address first the taxpayer amnesty bill.

TAXPAYER AMNESTY

The Noncompliance Problem

No problem facing our tax system today is more pressing than the need to maintain voluntary compliance with our tax laws. Our revenue raising efforts depend upon taxpayers honestly reporting their income and paying their fair share of tax. Although the great bulk of American taxpayers are honest, the facts concerning the level of taxpayer noncompliance are disturbing. Some estimates of tax revenues to be lost in 1985 alone due to noncompliance by taxpayers engaged in legal activities exceed $90 billion, or roughly half the current budget deficit. The percentage of noncomplying individuals has been estimated at twenty percent, and increasing steadily. As much as ten percent of all corporate income may be going unreported.

The Treasury Department has been actively exploring ways to close the so-called "tax gap" between actual tax liabilities and reported tax liabilities. In that process we have given careful consideration to a taxpayer amnesty, an approach that has been tried recently by a number of States. In the typical amnesty program, taxpayer amnesty has been coupled with a proposal for tougher enforcement of the tax laws. Advocates of taxpayer amnesty believe that the combined incentives of reduced tax liability and more aggressive future enforcement will bring forward many taxpayers who have illegally concealed their income, raising significant revenue at low cost.

A Flawed Approach

Our analysis of various amnesty programs has led us to conclude that we should not enact taxpayer amnesty at the Federal level. Our conclusion is based principally on concerns over the actual and perceived fairness of a Federal amnesty program, and thus over the possible adverse effects of an amnesty program on taxpayer morale and compliance. In addition, we question whether an amnesty program would raise significant revenue in the short run, and indeed, are concerned that amnesty could be a long-run revenue loser.

A Question of Fairness

The issue of fairness must be paramount in any consideration of an amnesty program, since taxpayer compliance with the tax laws ultimately rests on taxpayers' belief that those laws are fundamentally fair. As this Committee is well aware, there is much discussion at present over how we may improve the fairness of the tax system. The Administration has recently proposed a comprehensive reform of the tax system for fairness, simplicity and growth. We believe that the strong public support for that proposal reflects a widespread belief that the fairness of the system can and must be improved.

We have serious concern that enactment of a Federal amnesty program would raise additional doubt in the public's mind about the fairness of the current tax system. The great majority of taxpayers, those who have dutifully complied with the law and paid their fair share of tax, are likely to feel cheated when others, who knowingly broke the rules, are allowed to escape punishment and indeed, to the extent interest on overdue tax liabilities is forgiven, profit from their wrong. This natural, common sense reaction would inevitably lead to a certain cynicism about the tax laws and the importance of complying with them in the future. We cannot overstate the threat such attitudes pose to a tax system that depends on taxpayers honestly reporting their own liability for tax.

Effect on Revenues

The success of several State amnesty programs in increasing current revenue has caused many to ask whether an anmesty program would have the same effect at the Federal level. After studying the various State programs, we find no evidence that a Federal amnesty program would raise significant additional current revenue.

State amnesty programs have varied in the taxpayers they cover, in the taxes, penalties or interest that they forgive, and in their provision for increased future enforcement efforts or penalties. However, the greatest success seems to have been achieved where amnesty is accompanied by a significantly increased risk that tax delinquents will be apprehended in the future. Many States that tried amnesty programs did so at a time when enforcement of their tax laws had been somewhat lax. As a consequence, it is not clear that the additional revenues collected would not have been collected had tougher enforcement measures been in place all along. In contrast with these States, the Federal government has pursued aggressive enforcement policies for many years. We thus question whether a Federal amnesty program would provide an additional incentive for those currently outside the law to come forward.

Other factors also suggest that the Federal experience with amnesty would differ from that of the States. The history of strict enforcement at the Federal level is likely to result in a greater reluctance for taxpayers to confess to Federal than to State authorities. The risk of unexpected consequences, including costly administrative proceedings, could be more difficult to gauge at the Federal than at the State level. In addition, because there would be more dollars at stake federally, many taxpayers would be financially unable to wipe the slate clean.

Possible Adverse Long-Term Revenue Effect

We also believe that a Federal amnesty program could have a substantial negative effect on long-term revenues. A taxpayer amnesty, even if described as a "one-time" program, would lead taxpayers to wonder whether it might be repeated and thus to question the importance of continued compliance with the tax laws. Somewhat perversely, the more revenue the program raised in the short run, i.e., the greater its apparent success, the more likely taxpayer perceptions that it would be repeated.

We believe the tax system's ability to raise revenue must ultimately suffer from any program that casts doubt on the need for and importance of taxpayer compliance with the law. An amnesty program would gamble with our tax system's most important asset, the willingness of taxpayers to obey the law. This willingness rests in large part on taxpayers' belief that

noncompliance will not be tolerated. The small, and very likely short-run revenue gain that might come from an amnesty program is not worth the risk that taxpayers' belief in the integrity of the system would be weakened.

Suggested Approach

Our conclusion that a Federal amnesty program would be unwise should not be taken to indicate a lack of concern with the existing problem of taxpayer noncompliance. To the contrary, the problem of the tax gap requires, and is receiving in-depth study. As you know, we believe that many problems concerning noncompliance are rooted in the unfairness and complexity of the current tax laws. That is why it is imperative that we stay on the road to fundamental tax reform. Tax reform that improves the fairness of the system and lowers tax rates would be a significant step in our efforts to improve compliance and reduce the size of the tax gap.

NATIONAL ORGAN TRANSPLANT TRUST FUND

S.205 would employ the tax return system to facilitate taxpayer contributions to a National Organ Transplant Trust Fund. However worthy the purposes of a National Organ Transplant Trust Fund, we oppose use of the tax system and the return process for goals that are wholly unrelated to the raising of tax revenue. You should note that we have, on the same grounds, proposed repeal of the existing Presidential Campaign Check-off as part of fundamental tax reform. Provisions such as these, though seemingly harmless when considered alone, add significantly to the complexity of the tax system. The question of support for a National Organ Transplant Trust Fund should be pursued in another manner.

Senator CHAFEE. Well, Mr. Ross, I think that's interesting. Of course, we have Massachusetts sitting next to you where Mr. Herman has testified that they've had great success and yet I don't think there's any suggestion that since it proved successful, they had better try it again.

Mr. Ross. Are you raising the issue of whether a one-time program is proposed or desirable?

Senator CHAFEE. I don't think anybody has ever suggested anything more than a one-time program. I really don't agree with Senator Dixon's proposal that you excuse half the interest. I think that is, as you say in your statement, rewarding the fellow who has cheated. Waiving the penalty is one thing, but to let them make a profit on that is another.

But, you know, I agree with what the other witnesses have said. That this would not upset the honest taxpayer. I think the honest taxpayer's reaction, as both Senator Dixon and Mr. Herman have described, is that they are very pleased that this additional revenue came in. And I don't think they think that the delinquent is getting away with something. Except in Illinois. I would have been upset about the lack of interest. Apparently, it has been mentioned here by Senator Dixon's assistant. Illinois excused half the interest. But outside of that, I think the honest taxpayer would say, gee, this is a bonanza, thank goodness. We are all better off because there is more in the pot than there would have been without it.

Mr. Ross. Mr. Chairman, I think you also have to consider, though, what the honest taxpayer is going to think about his own future behavior. As you pointed out, the program in Illinois was, in a sense, repeated. There was an initial administrative amnesty and then a couple of years later there was a legislative amnesty. And in a couple of years, there may be additional proposals for amnesty.

I take it Mr. Keating's group thinks that there should be serious consideration given to some sort of standing amnesty program. And that's not without precedent worldwide. Many of the European nations and some of the Latin American nations have standing amnesty programs. And I think they have experienced compliance problems. Even as serious as our own compliance problems are, they are dwarfed by those of many foreign governments.

And certainly that's the Treasury Department's fundamental concern in this area. What message you are going to be sending to taxpayers. Is it necessary to obey the tax laws or do you wait around for the possibility of an amnesty?

Senator CHAFEE. Well, I think—not every 50 years. But we haven't done it before, and if we did it once, and you got a lot of revenue, I don't think the incentive would be, gee, it's worked once, try it again.

Let me ask you a question. What do you do about the fellow who is out there—and these people turn up every so often, usually when they have applied for some kind of a job—that has never paid any income tax? He doesn't dare start paying them because when he does then he's really in trouble. These people are out there. We have turned them up when they have gotten some kind of a Federal position and some FBI check is run on them for this

reason or that. I think Federal judges have turned up that haven't paid their income taxes, perspective judges.

What do you think? That person is in a trap. He can't come forward. But under this program he could. He can clear the slate. He can get out of this hole that he is in.

Mr. Ross. That is a possibility.

Senator CHAFEE. So this would be nonsexist. That she might be in that position.

Mr. Ross. Sure.

Senator CHAFEE. It's not only men that cheat on taxes.

Mr. Ross. That's no doubt true.

The question is, I think, in part whether that person even in the face of an amnesty is going to come forward. And you might wonder whether that person, if they have escaped paying income tax for so long in the past—may think "why stop now."

And amnesty will, no doubt, cause some people to recalculate their position and decide this is the time to join the system of people who pay taxes. But others will stay out of the system.

Senator CHAFEE. Is your principal objection that once we did it we might do it again?

Mr. Ross. I wouldn't say that if you could somehow constitutionalize the matter, so that the possibility of repeated amnesty would be so remote that no one would take it seriously, that we would no longer have an objection. We certainly have concerns about how much revenue this program would raise.

We also question what effect even a one-time program will have on other taxpayers who, again, for the most part, comply with the law faithfully, honestly, and repeatedly and would see others who made different choices escape, for the most part, the consequences of those choices.

Senator CHAFEE. I'm sorry we don't have a witness from some of the other States. We've had witnesses from two States where the thing has been a great success. It may well be that the Massachusetts program was rather lethargic in advance of it. But some of the other States tried it and my information shows it didn't work very well. South Dakota was one of them. Maybe South Dakota just didn't have that much revenue out there that is going uncollected.

Mr. Ross. Mr. Chairman, I might point out that when you measure the possibility of success at the Federal level by reference to what has happened at the State level, you are really venturing on, I think, a little shakey ground.

First of all, and it is a point that you brought out earlier, enforcement at the State level has not been as strict as at the Federal level. This raises the question of how much of the gain in revenue is really attributable to the stick part of the program. Most of the state amnesty programs have had both approaches—the carrot of amnesty, the stick of enhanced enforcement. I think one has to ask how much additional revenue the States would have gained by simply bringing their enforcement efforts up to speed.

Senator CHAFEE. Kansas did it from July to September. Three months. And they picked up about $1½ million. Now I suppose the Massachusetts people would say, well, they didn't do the program correctly; they didn't publicize it; they didn't have a preliminary crackdown to show they meant business; they didn't have high

visibility in the seizure of some assets; and, therefore, the program failed.

North Dakota collected $135,000.

Do you gentlemen have anything else to say? Mr. Herman?

Mr. HERMAN. Yes, Mr. Chairman. A couple of quick points.

Mr. Ross discussed and raised the question of undermining people's confidence in the fairness of the tax system. Well, I think that part of the national debate today is that our tax system is fundamentally unfair. Even President Reagan last week, I think in expressing a view of many people in the country, said cheating on existing tax laws is not a sin but a duty. So I don't think that many people in this country today think that our tax system is fair.

Second, as to enforcement and the IRS' success with enforcement. While it has a long and distinguished history, today it is losing its battle. We have the $100 billion annual tax gap. We have one in five people admitting they are cheating on taxes—and that's from an IRS study, the Yankolovich study. Your chances of being subject to criminal investigation by the IRS is 1 in 43,000. As to long-term revenue effects—while Mr. Ross suggested that there is an argument that there would be a long-term loss, we find to the contrary. We believe that there will be not only a one-time windfall, but once we get people on the rolls from amnesty, voluntary compliance will go up, people will be on the rolls and additional revenue will continue to come in from these people year after year.

Senator CHAFEE. Well, I think there's a lot to that, what you say. Any rebuttal, Mr. Ross?

Mr. Ross. I don't want to engage in a point by point rebuttal.

Senator CHAFEE. Well, engage in one or two points.

Mr. Ross. Fair enough, Mr. Chairman. I'm trying to remember——

Senator CHAFEE. Well, he said, first of all, you get more people on the rolls and they will stay on the rolls.

Mr. Ross. There is some possibility of that. I should point out, however, that the IRS studies of State amnesty programs reveal that something well less than 10 percent of the persons that come forward under State amnesty programs are not already Federal filers. So it's not clear how much potential there is for the Federal system to expand simply through an amnesty program.

I would also point out that the most optimistic estimates about a Federal amnesty program project about a $15 billion revenue pickup. The problem of the tax gap or the problem of taxpayer noncompliance by all estimates exceeds that by a ratio of 5 or 6 to 1.

Senator CHAFEE. Beg your pardon. I missed that. What did you say, Mr. Ross?

Mr. Ross. Well, the most optimistic estimates about the revenue to be gained from a Federal amnesty are something like $15 billion. The problem of the tax gap dwarfs that. We are not going to eliminate the problem of noncompliance through an amnesty. And that's really one of the reasons why we anticipate there will be pressure in the future to do something like this again.

This is not a solution to the problem of noncompliance in the tax system. Moreover, I think there are better approaches to a solution. And to some extent the Service and the Treasury Department

are pursuing those. For example, the Federal budget now contains for fiscal years 1987 through 1989 proposals to increase the number of revenue agents.

Senator CHAFEE. Seventy-five hundred, isn't it?

Mr. Ross. Seventy-five hundred over 3 years. That's right.

And it's believed that that will significantly improve the enforcement efforts of the Service. Beyond that, recently enacted legislation has increased significantly the volume and character of information that the IRS receives in the nature of reporting various items of income in the economy.

Senator CHAFEE. You mean waitresses and so forth?

Mr. Ross. Well, that's one example. Mortgage interest is now required to be reported. State and local tax refunds must now be reported. And a variety of partnership information items must be reported. The IRS is pursuing increased audit of tax shelters. A lot of this has come on line in the last few years. And while we don't want to say that this is in and of itself going to significantly abate the problem of taxpayer noncompliance, there are important efforts being made in the enforcement area. And that is where we would like to see the focus maintained rather than going for the sort of quick-fix solution of an amnesty. And I'm not even sure the proponents identify it as a solution.

Senator CHAFEE. I don't think anybody says it's a solution.

My trouble is I don't see that they are mutually exclusive—doing what you are suggesting and an amnesty. I don't see how they get in the way of each other. I think there should be increased audits.

By the way, somebody said that there is a chance of only 1 in 43,000. What are the chances of audit now? What percentage of returns do you audit?

Mr. Ross. I'm not certain of the exact percentage, Mr. Chairman. It's clearly not an extremely high percentage. I think it's probably under 5 percent.

Mr. WADE. It's more like 1½.

Senator CHAFEE. That's what I thought. I thought it was around 1½. I think the more audits the better. If somebody thinks they are going to be audited, they really are careful. And he or she is careful.

Here's a note. Audit coverage in 1984—1.3 percent, which is a very low percentage. If you know you are going to be audited, you just err always on the correct side.

Mr. Ross. Mr. Chairman, if I could make one additional point here. The problem of people gambling with audits, so-called audit roulette, I'm not sure it's not enhanced to some extent by an amnesty program. All of the amnesty programs carve out taxpayers who are currently under investigation or have been contacted by the Internal Revenue Service. And in the case of the State, the State——

Senator CHAFEE. What do you mean carve them out?

Mr. Ross. Well, they are not eligible for the amnesty.

Senator CHAFEE. Yes.

Mr. Ross. And I think no one is going to voluntarily comply if they can wait until the IRS catches them and at that point come into the system. I think you have to have that kind of carveout. The problem has always been—and there is historical experience at

the Federal level for this—you know, at what point do you consider the taxpayer to have been contacted. The taxpayer can, in a sense, keep the ear to the ground and see if something is afoot, see if there is some possibility that his or her return is going to come under IRS scrutiny. And only at that point come forward.

Senator CHAFEE. Well, I don't know about that. First of all, these amnesties are very brief. In 3-month periods. I don't know if any of them are more than 3 months. And second certainly in the Massachusetts one, they didn't let you know when it was going to be. I think you are right in saying that once proceedings have been started—and I don't know how you would define them—but some kind of proceedings—then you don't get the amnesty. So, therefore, I don't think there is an amnesty roulette. If you knew someone was on your trail, sure, if the amnesty was in effect you would rush in. But if you didn't know when the amnesty was going to come along, and I think it's a good point, one Massachusetts did—give the Treasury Department an opportunity to choose when it is going to be.

Well, I appreciate you all coming.

Thank you very much. That concludes this hearing.

[Whereupon, at 10:58 a.m., the hearing was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT

on

TAX AMNESTY

before the

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

of the

SENATE COMMITTEE ON FINANCE

for the

CHAMBER OF COMMERCE OF THE UNITED STATES

by

David R. Burton*

June 24, 1985

The Chamber of Commerce welcomes this opportunity to comment on Senator Dixon's "Federal Tax Deliquency Amnesty Act of 1985" (S. 203). The Chamber is opposed to tax amnesty because of strong reservations about the fairness and administrative wisdom of a tax amnesty.

Because of Massachusetts' recent experience and lobbying by several citizens' groups, the tax amnesty issue has attained an uncharacteristically high profile. Many prominent persons have either endorsed the idea or promised to give it extended consideration. In the wake of Massachusetts' success, Speaker O'Neill and House Ways and Means Chairman Rostenkowski both said it is worth examining whether such a program on the federal level would be desirable.

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* Tax Specialist

On January 17, 1984, the last day of the Massachusetts tax amnesty program, taxpayers stormed into the state's tax collection offices voluntarily paying additional taxes to the state government. The government was overwhelmed. Under the program, the state offered to forgive criminal and most civil penalties to those tax evaders who would voluntarily come forward and pay back taxes and interest. The program raised at least $62.3 million in 90 days. About 50,000 people who had been cheating on their taxes took advantage of this opportunity to settle their accounts with Massachusetts' taxing authorities.[1]

This experience has prompted at least 11 other states to implement a tax amnesty program. But these programs have experienced markedly differing degrees of success. For example, North Dakota's amnesty raised only $150,000 and Idaho's program raised only $300,000.[2]

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[1] See Wall Street Journal, January 25, 1984, p. 1; John L Mikesell, "Tax Amnesties as a Tool for Revenue Administration," 57 State Government 114 (1984).

[2] Mikesell, ibid., p. 119.

Proponents argue that a federal amnesty would raise tax revenues without raising taxes. They contend that an amnesty would be compassionate, allowing otherwise law-abiding citizens to clear their conscience and avoid the possibility of going to jail. An amnesty would allow the IRS to attack the underground economy. Everyone, it seems, would benefit, and Massachusetts' and other states' experiences prove that any administrative problems can be easily overcome. However, there are reasons to be wary of a tax amnesty.

Although hearings which looked into the subject were held by Senator Grassley as early as May, 1983,[3] the lack of professional commentary and historical documentation makes an exhaustive normative or historical discussion of tax amnesty particularly difficult. In fact, tax amnesty has a long, little known and less than honorable history in the United States. An examination of the reasons that caused such a policy to be abandoned in 1952 may provide otherwise unavailable insight about whether the policy is desirable. To institute a tax amnesty without an extended review of the experiences of our predecessors would be unnecessarily to condemn ourselves to repeat their mistakes. Moreover, there are moral considerations that seem, so far, to have been omitted altogether from the policy debate. In short, the policy is not an unmitigated panacea.

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[3] Hearings before the Senate Finance Committee Oversight Subcommittee, May 20, 1983 (hereinafter Grassley Hearings).

History

"Experience," said Publius, "is the oracle of truth; and when its responses are unequivocal, they ought to be conclusive and sacred."[4] Experience may preclude an amnesty; but if we decide to adopt a voluntary disclosure policy in principle for other reasons, it should at least be structured so it will not repeat the mistakes of the past.

From 1919 to 1952, the Bureau of Internal Revenue (as the IRS was then called) maintained a policy of granting immunity from criminal prosecution to tax evaders who voluntarily disclosed their evasion.[5] In 1952, the policy was discontinued because of 'administrative difficulties."

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[4] The Federalist Papers (No. 20).

[5] Attachment 12, History of Voluntary Disclosure Policy, p. 165, undated Treasury document obtained from the IRS under the Freedom of Information Act; also, Administration of the Internal Revenue Laws: Hearings before a Subcommittee of the House Committee on Ways and Means, 82d Cong., 2d Sess. (1952) (statement of IRS Commissioner John C. Dunlap) (cited hereinafter as "King Hearings").

The policy had given rise to corruption, uneven administration of the tax law, uncertainty, increased litigation and unpunished and flagrant failure to pay taxes due. Treasury has refused to reinstitute the policy primarily because of these problems, some of which are discussed in greater detail under separate headings below.[6]

One example of corruption within the Bureau of Internal Revenue was the Chief of an Income Tax Division who made a regular practice of falsifying written documentation of voluntary disclosures so it looked as if the taxpayer had disclosed before an investigation had commenced. This sort of practice, however, was not unusual. In less than one year, over 10% of the Bureau's top personnel were discharged because of administrative irregularities.[7]

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6 King Hearings, Treasury testimony.

7 See Charles S. Lyon, "The Crime of Income Tax Fraud: Its Present Status and Function," 53 Col. L. Rev. 476, 476-477 (1953); Report of the Subcommittee on the Administration of the Internal Revenue Laws to the House Ways and Means Committee, 82nd Congress, 2nd session, 11, 45-46 (1952).

In light of this experience, any amnesty proposal must grapple with several broad structural issues. None of the major amnesty proposals presently circulating adequately does so.[8]

Duration

If we implement an amnesty, we must decide whether it will be one of indefinite duration or whether it will be a one-time offer with a defined termination date. If amnesty is a good idea, rather than a cynical response to the exigencies of contemporary tax revenue shortfalls, then it seems contradictory to limit the program to only a few months. Whether the motive is revenue raising or compassion towards repentant tax evaders, the situation does not magically change after 90 or 180 days. No doubt, the major reason cited by proponents of a short, fixed period is the need for deterring future tax evasion.

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[8] Major proposals include those of the Chicago Bar Association and Jack Warren Wade made at the Grassley Hearings, May 20, 1983. The American Bar Association proposed a statutory continuing voluntary disclosure policy in 1962. 15 Tax. L. 191-195 (1962). Recent legislative proposals include Senator Dixon's "Federal Tax Delinquency Amnesty Act of 1985" (hereinafter the Dixon bill) (S. 203) and Title II of Rep. Siljander's "Ten Percent Flat Tax Rate Act" (hereinafter the Siljander bill) (H.R. 200).

But once an amnesty has been adopted, the damage is done; taxpayers will anticipate future amnesties. Moreover, less sophisticated taxpayers may misinterpret an amnesty to mean that criminal penalties for tax evasion simply have been repealed.

A method of at least partially addressing these concerns would be to combine a vastly increased effort to apprehend tax evaders with any tax amnesty which might be enacted. This would deter future evasion, encourage present voluntary disclosures and apprehend more unrepentant tax evaders. Presently, however, the trend seems to be towards reducing the IRS's investigatory and prosecutorial resources, not expanding them. This, of course, would assure a marked increase in demand for tax amnesty.

Eligibility Test

For purposes of determining whether a taxpayer's disclosure was timely, each proposal must include a test based on whether the taxpayer had actual knowledge he was under investigation or on some "objective" test which considers only when the IRS actually commenced or concluded its investigation. It does not seem fair to deny a taxpayer immunity under so-called "objective" tests even though he actually did not know he was under investigation, he had no way of finding out whether he was under investigation, and he complied with all of the government's requirements.

This point of view rests on the premise that the government is making an offer which, if accepted, should be binding. The proposal is subject to criticism for granting rights to tax evaders who gave nothing in return for the right, while all U.S. taxpayers are obligated to pay taxes without receiving any special rights. An "objective" test would strongly discourage disclosures because people would be afraid that they would disclose incriminating evidence in good faith only to discovery out that, unbeknownst to them, the IRS had begun an investigation.

One of the primary reasons the earlier policy was discontinued, however, was that the Bureau became saddled with proving beyond a reasonable doubt that the taxpayer did have actual knowledge of an investigation in cases where taxpayers "voluntarily disclosed" their fraud only after, in fact, learning of an investigation.[9]

One suggested solution is to require the IRS to give notice to taxpayers upon initiating an investigation. This has the advantage of allowing all taxpayers to know their status with respect to the amnesty. It has the disadvantage of insulting honest taxpayers and of warning dishonest taxpayers and allowing them to destroy evidence or hide assets.

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[9] See, e.g., Treasury testimony at the King Hearings, January, 1952; U.S. v. Weisman, 78 F. Supp. 979, 981 (D. Mass. 1948); In Re: Liebster, 91 F. Supp. 814, 816 (E.D. Penn. 1950); U.S. v. Levy, 99 F Supp. 529, 532 (D Conn. 1951); U.S. v. Pack, 140 F. Supp. 121, 126 (D. Del. 1956). See, also Plunkett v. C.I.R. 465 F.2d 299, 302 (7th Cir. 1972).

A similar approach would be to set up an independent office which would tell a taxpayer whether he was under investigation; however, it would be difficult, if not impossible, to convince taxpayers that such inquiries would not lead to an investigation of their affairs. The preferred solution is to employ the "subjective" actual knowledge test but shift the burden of proof to the taxpayer. The lack of an IRS investigation would, of course, make the issue moot. The Dixon and Siljander (S. 203 and H.R. 200) bills both employ the objective test and would, therefore, tend to discourage disclosures. The Dixon bill would further limit eligibility to those who earned their untaxed income legally.

Degree of Civil Liability

Each proposal must state whether the taxpayer will be immune only from criminal penalties or also from civil penalties. The more generous the immunities granted under the amnesty, the greater the response will be. Forgiveness of civil penalties and, for that matter, interest and back taxes would encourage more tax evaders to disclose and join the tax rolls. On the other hand, to the extent that tax evaders are free from meaningful punishment, the importance of the crime of tax evasion is degraded and its commission encouraged.

The Dixon bill would forgive all civil and criminal penalties. In addition, the bill would forgive one-half of the interest on back taxes. The Siljander bill would forgive all civil and criminal penalties. It would also forgive any "addition to tax" which is defined as "any additional amount."

Presumably, then, the Siljander bill would forgive all interest. Thus, under both the Dixon and Siljander bills, tax evaders would be treated better than honest taxpayers who were forced to forgo interest on taxes paid.

Minimum Procedural Formalities

Each proposal must include a procedure for taxpayers to make their disclosures. Any contemporary amnesty program must institute minimum formalities if it is to be a success. Under the abandoned policy, the lack of even minimum formalities gave rise to problems of administrative abuse, corruption and litigation arising out of uncertainty. As simple a step as requiring that a special form be filed with a special Washington office by certified mail would eliminate much corruption, abuse and uncertainty. This procedure need not hinder ease of administration, however. The forms could be made available anonymously at all post offices and, once a proper disclosure was made, the case could be administered by local IRS offices.

The Payment Problem

It must be determined whether payment must accompany disclosure or whether a mere promise to pay is sufficient. Historically, the problem of disclosure being followed by noncooperation or failure to pay was a very real one. Since, however, the basic agreement between the government and taxpayer would be immunity in exchange for money, it seems clear that failure to maintain

payments under a reasonable installment agreement should result in loss of immunity and subsequent criminal prosecution in most, if not all, cases. The tax evader should not be treated better than the law-abiding taxpayer as, indeed, he would be if allowed to maintain his criminal immunity yet default in his payments. Moreover, the threat of criminal punishment will act as a constant incentive for tax evaders to meet their obligation.

Both the Dixon and Siljander bills would explicitly allow installment payment plans. They are drafted so that the IRS would retain total discretion about whether to grant a payment program. Neither bill makes it clear whether criminal or civil penalties could be reinvoked upon nonpayment. If not, then tax cheats could simply file the amnesty form, not pay and be secure in the knowledge that the IRS cannot even collect interest.

Scope of Immunity

Each proposal must state whether the scope of the immunity will extend to partial disclosures and years for which a disclosure was not made. Immunity, it would seem, should extend only to those years for which the tax evader has paid or agreed to pay his taxes. Otherwise, the policy, in effect, would be forgiving back taxes. Viewed from a somewhat different perspective, the adoption of any other policy could be viewed as tantamount to subsidizing fraud. If it is shown that for any year, including years for which a tax evader made only partial disclosure, a person committed fraud, then he should be fully liable.

Treatment of Related Persons

Each proposal must contain provisions regarding the treatment of related or associated persons or entities such as family, subsidiaries, business partners, shareholders, management, frequent business associates and the like. This issue is extremely problematic. Obviously, if a supplier is being investigated he will probably inform his customers of the investigation so that they may "voluntarily" disclose before it is "too late" (i.e. before they too are under formal investigation). Likewise, a relative or partner would probably inform his family or partner as soon as he was the least suspicious that he may be under investigation. This is precisely the kind of warning which the Treasury considered impossible to prove under the abandoned policy.

Perhaps the best rule to fashion would be one that denied immunity to any party which had substantial commercial or financial involvement with the investigated party. It might be possible to borrow from securities' regulation standards regarding insider trading. It would be preferable to use borrowed standards because it would eliminate much of the uncertainty that would surround a novel test. Both the Dixon and Siljander bills adopt the reasonable, but perhaps too lenient, test presently found in section 267(b).

Administrative Discretion

Each proposal must state whether the policy is implemented by statute, Treasury regulation or administrative policy. It is a fundamental

tenant of the American political ethos that we should have a government of law, not of men. In furtherance of this sound principle the policy should be elevated beyond mere policy in the sense that binding rules governing the policy should be made. Binding rules are legally enforceable rules which will be applied against both the tax evader and the IRS. Binding rules prevent favoritism and abuse of administrative discretion; they promote certainty, uniform administration of justice and the rule of law.

The Judiciary began to develop binding rules with respect to the policy, placing limits on the Bureau's hitherto unbridled discretion. The most prominent example of judicial restraint was the case of In Re: Liebster.[10] In that case, the court held, in effect, that the Treasury had a well known policy of offering immunity in return for a voluntary disclosure of fraud, a policy designed to induce such disclosures, and that if a taxpayer substantially complied with the known terms of that policy, the Bureau was estopped from prosecuting the taxpayer. The Bureau, jealous of its discretionary prerogatives, soon announced the discontinuation of the policy. Yet it has maintained a de facto voluntary disclosure policy, with no judicial interference, unto this day.[11]

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[10] 91 F. Supp. 814 (E.D. Penn. 1950).

[11] See, e.g.. testimony of Chicago Bar Association at the Grassley Hearings; Marvin J. Garbis and Stephen C. Struntz, Tax Procedure and Tax Fraud. West Publishing Co., 1982, pp. 596-597. Richard J. Trattner and Mark D. Pastor, "IRS Disclosure Policy," 1 L.A. Lawyer 30 (May 1978).

If the Treasury should continue to maintain that the policy is undesirable in principle, proponents of an amnesty have only statutory recourse. In light of the limited, and generally unfortunate, experience with the policy, it may be more prudent to attempt to use the more flexible regulatory route first. If a statute be enacted, it may be desirable to frame it in broad language so that Treasury may change the mechanical rules of the policy as experience dictates.

Considerations of Federalism

Each proposal must include the degree to which the IRS should cooperate with state and local taxing authorities. Unless sharing with state and local authorities of information garnered from voluntary disclosures is predicated on their having an amnesty too, the possibility of being prosecuted by a nonparticipating government will be an extremely strong disincentive to participate in a federal amnesty program. In fact, it seems that many people who disclosed to the Massachusetts government may soon find themsleves under IRS investigation because Massachusetts may share information with the IRS. In order to insure the success of an amnesty program these fears must allayed either by a guarentee enforeable at law not to share information or by a geographically limited program. Neither the Dixon nor the Siljander bill addresses this problem.

Revenue Effects

The extremely limited data available from the 1940s imply a contemporary federal revenue increase of about $6 billion to $10 billion each year attributable to a continuing tax amnesty program.[12] To the extent that the underground economy is larger than it was in the 1940s, the expected revenue pickup would be larger. Massachusetts' recent experience implies a similar federal figure. None of these figures is reduced to account for revenues that could or would have been received because of enhanced or even ordinary IRS investigatory initiatives, nor does any account for tax revenues lost because of increased tax evasion induced by amnesty programs.

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[12] See, e.g., Joseph W. Burns and Murray L. Rachlin. "Should We Penalize Voluntary Disclosures," 28 Taxes 39 (January, 1950); Gerald L. Wallace. "Penalties and Prosecutions for Evasion of the Federal Income Tax," 1 Tax L. Rev. 329, 342 (1946).

Justice

All too often, tax evasion is not viewed as a serious crime. But for those who harbor now somewhat unfashionable notions about an individual's duty, if not to the state then to other civilized individuals, the tax evader has seriously breached his obligation as a citizen. He has forced others to bear a heavier burden than is rightfully theirs. If his behavior were to become the norm, the very fabric of civilized society would rapidly be torn as under. To allow persons blithely to avoid supporting a society from which they benefit daily is morally repugnant.

Although a policy of not prosecuting a person who voluntarily comes forward admitting his transgression is consistent with a policy of trying to bring back prodigal persons who have strayed from the fold of civilized society, compassion and sympathy for the newly enlightened criminal must be weighed against the value of deterring undesirable conduct in the future and the sense of moral outrage caused by the additional burden thrust on others by the evader's shirked obligation.

Conclusion

As the Massachusetts and early federal experiences indicate, an amnesty program can be expected to raise money. With proper regard for the lessons of experience, a workable amnesty program could, no doubt, be instituted at the federal level. It would cause administrative difficulties which might be serious enough to outweigh an amnesty's benefits. It is an open and undebated question whether an amnesty is just. In short, it is doubtful whether we should grant an amnesty to the republic's tax evaders.

AMNESTY

Preliminary Analysis

Massachusetts Department of Revenue

Ira A. Jackson, Commissioner

March 21, 1984

...AND FORGIVE ME FOR $5.83 IN UNREPORTED TIPS IN 1937... AND GOODNESS ME! IN 1938 I PAID NO TAX ON MY INCOME FROM BABYSITTIN' ...THEN CAME 1939...
MASS. REVENUE DEPT.
MASS. TAX DELINQUENTS GIVEN AMNESTY PERIOD.
GRANLUND ©'78 THE MIDDLESEX NEWS

AMNESTY

Preliminary Analysis

I. Overview and Strategic Considerations

II. Enabling Legislation

III. Description of Amnesty Program

IV. Results of Amnesty Program

A. Volume of Response

B. Amount of Payments

V. Costs of Amnesty Program

VI. Effects of Amnesty on Other Collections of Delinquent Taxes and Total Revenues

VII. Conclusions

VIII. Appendix

This preliminary report provides a first overall look at the Massachusetts Tax Amnesty program -- the background, the preparations, the requirements, the working details and the results. It seeks to answer numerous questions on collection data, taxpayer response and costs of the program.

A few words should be said at the start about the broader issues and objectives of the program to better understand the quantitative information which follows.

While the program officially ran from October 17, 1983, through January 17, 1984, the Massachusetts Tax Amnesty was more than a three-month effort. The program can only be understood in the context of a new, innovative, strategic initiative which commenced well before its surprise announcement in October. Much of our Amnesty success was due to this extensive preparation.

Preparation for Amnesty really began last spring. For the first time the Department of Revenue took the initiative to highlight the tax evasion problem. It also outlined innovative programs and plans to crack down on both evaders and delinquents. Acknowledging the importance of firmness and fairness in tax administration, the Department stepped up its enforcement activities. There followed an accelerated and highly visible campaign of business and other property seizures. Criminal prosecutions were stepped up. There were more audits, more liens and levies, and more computer matches to detect evasion. Through this campaign, based on an overall strategic design, the Department collected $128.8 million in delinquent taxes in fiscal 1983. That was a 70% increase over FY 1982 and more than four times what had been collected only five years ago.

The crackdown on tax evasion was strengthened in June, when the Legislature passed the Governor's Revenue Enforcement and Protection Program, known as REAP. One part of that 101-section omnibus bill made tax evasion a felony in Massachusetts. The bill gave the Department a broad range of other enforcement tools and powers, including the use of private collection agencies and the authority to recommend revocation of licenses and vendor contracts for failure to comply with the Commonwealth's tax requirements. This legislation also authorized the Amnesty program.

In the month immediately preceding the Amnesty program, more individuals and corporations were indicted on criminal charges for tax evasion than ever before in the Department's history. An intensive program was mounted to collect use taxes on luxury boats and airplanes whose owners had documented them out of state. The Department began to hire more auditors and collectors, as well as doubling the size of its Criminal Investigation Bureau.

Within the limits of the confidentiality of tax returns and records, DOR went to great lengths to focus public attention on its heightened enforcement activities. The enforcement and the resulting media coverage were stepped up in the weeks before announcement of the Amnesty program. The strategic goal was to make it plain to evaders, delinquents and the general public that the Revenue Department was dead serious about collecting taxes and catching evaders -- and that we were increasingly successful in doing so.

Clearly, the public began to perceive that the walls were closing in on both evaders and chronic tax delinquents. As the ground rules changed, as the penalties got more severe and the crackdown escalated, Amnesty gave people a one-time window of opportunity to come in and settle up, without penalties, prosecution or further recriminations. With all that had gone beforehand, people took the Department seriously when it said this was a last-chance opportunity.

The message certainly got across to nearly 47,000 individuals and corporations, who took advantage of Amnesty and paid over $62 million.

Implementation of the Amnesty program required careful planning for use of personnel and other resources. An Amnesty Unit was established with new forms, procedures and phone lines. Posters informing the public of the program were distributed to all Massachusetts post offices, banks and libraries. Billboards and broadcast public service announcements were arranged across the state to help get the message out. Amnesty applications and informational brochures were mailed to all delinquent taxpayers, all registered businesses with outstanding filing periods and all individual and business taxpayers who were discovered to be nonfilers as a result of IRS tape matches. In sum, over 400,000 letters, bills and brochures were mailed from mid-October through December.

Even with all the efforts to inform the public, the resulting success of the program was wholly unanticipated. Initial estimates of the collections from Amnesty ranged from a low of $5 million to what at the time was regarded as a most optimistic $20 million. The current total of $62 million was beyond anyone's imagination at the start.

Throughout the program, Department of Revenue staff handled over 130,000 taxpayer contacts -- 30,000 in the last day of the program alone. Mail poured in from virtually every state and 12 foreign countries. One taxpayer even tried to settle his liability with a 5-pound British note.

A massive Departmental effort was needed to keep pace with the work load. In the final days of the program over a thousand people were involved -- answering inquiries, providing taxpayer assistance, processing payments or setting policy. This unified effort creat a new spirit of cooperation and commitment among employees The success of Amnesty fostered a new sense of pride throughout the Department.

Because of the employees' efforts, the public got the chance to see the Department in a new and favorable light. In place of the usual perception of an inefficient bureaucracy with intricate rules and red tape, the public saw a group of dedicated people, willing to work long hours and capable of being responsive, helpful and service-oriented.

The program could not have worked without a commitment to overtime by both employees and the Department. In all, there were some 78,000 hours put in by some 1,000 people at all levels. Individual staff and managers have worked as many as 700 hours of overtime each.

Just as the program did not begin in October, it did not end in January. Amnesty still has a very real presence within the Department of Revenue, with final processing yet to be completed on thousands of cases. That work will continue for several more months, and the revenue total will continue to rise.

For the tax-paying public in Massachusetts, the heightened awareness about tax evasion and tax-filing requirements did not end once the Amnesty billboards and bus signs were removed. The elderly man who settled a 40-year backlog of tax bills under Amnesty and then came back to file his 1983 return is just one example of the increase in voluntary compliance that has been achieved through this program. Changed public attitudes about tax evasion and the effectiveness of the Department in administering the tax laws have helped swell revenue collections well ahead of the prior year to date. An increase in voluntary compliance is expected for years to come.

During Amnesty the Department warned that there would be a new and even tougher period of enforcement afterward. And it is carrying through on that warning. In the two months since the end of Amnesty, there have been 19 new property seizures. A new round of criminal indictments brought seven individuals and seven corporations to court on tax fraud charges totalling some $700,000. A new computer match program has been started to check for tax delinquency and tax fraud among luxury car owners, and one vehicle has already been seized to settle a $15,000 income tax liability.

The pace of activity will continue to accelerate, with implementation of new powers in the REAP legislation, addition of new auditors and expansion of the Department's computer capabilities. The Department is also committed to a public education campaign aimed at changing society's attitudes about tax delinquency, showing people how they are the victims of that crime and how they lose even from serious tax delinquency.

The Amnesty program helped toward that goal by getting many evaders within the law and many delinquents up to date in their bills. The Department will now move on to help the vast majority of the taxpayers who comply with our laws. It will also seek out and punish those evaders and delinquents who passed up the Amnesty and think they can continue to violate the law and ignore their legal tax obligations.

THIS IS YER LAST CHANCE TO GIVE UP!" AFTER THE 17TH WE COME IN AFTER YA!
TAX EVADERS INC
STATE AMNESTY PROGRAM
REVENUE DEPT

II. ENABLING LEGISLATION

Chapter 233 of the Acts of 1983, an act to provide a Revenue Enforcement and Protection program for the Commonwealth, was enacted on July 1, 1983.

Section 98.

In order to encourage the voluntary disclosure and payment of taxes owed to the Commonwealth, the commissioner of revenue is hereby authorized during the fiscal year ending June thirtieth, nineteen hundred and eighty-four to establish a three-month period during which all penalties, imposed by sections thirty-three and thirty-four of chapter sixty-two C of the general laws will be waived if any taxpayer voluntarily files delinquent returns and pays taxes owed. Such waiver shall apply to the non-reporting, under-reporting of tax liabilities or to the non-payment of tax previously assessed, but shall extend only to penalties attributable to the taxes paid during said three-month period. The terms and other conditions of such a program shall be determined by the commissioner.

III. DESCRIPTION OF AMNESTY PROGRAM

A. Authorized by Chapter 233 of the Acts of 1983, the Revenue Enforcement and Protection Program (REAP).

B. Covered a three-month period--October 17, 1983 through January 17, 1984.

C. Open to anyone:

- who had failed to file a Massachusetts tax return;
- who had underreported income;
- who had overreported deductions; or
- who was delinquent in paying a past State tax obligation.

D. Not open to those who were the subject of tax-related, criminal investigations or court prosecutions.

E. Covered all tax types.

F. Required taxpayers:

- to apply in writing on a special form; and
- to make full payment of all taxes and interest.

G. Waived civil penalties

- Late filing of a return provides a penalty of one percent (1%) a month of the amount due, up to a maximum of 25%.
- Late payment provides a penalty of one-half percent (½%) a month, also up to a maximum of 25%.

H. Made no referrals for criminal prosecutions.

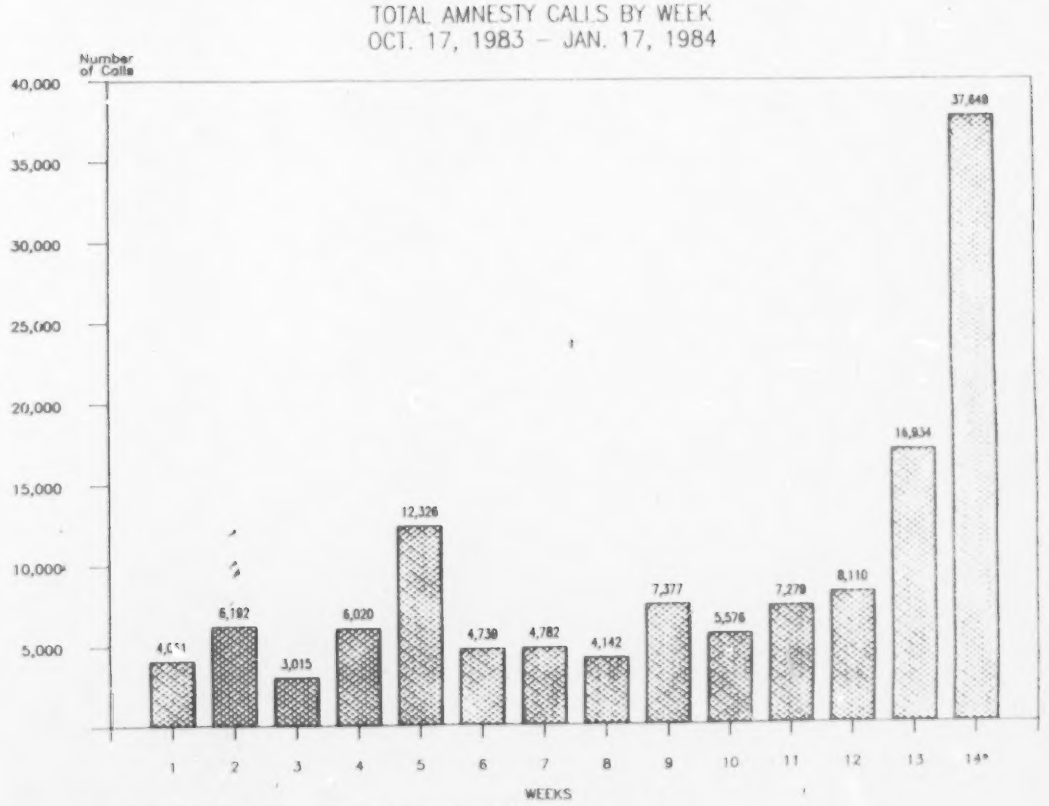
IV A. VOLUME OF RESPONSE

1. Contacts

- Almost 130,000 taxpayers contacted the Department of Revenue during the Amnesty program.
- Over 30,000 taxpayers contacted the Department on the last day of the program alone.
- The largest volume of traffic was handled by the Department of Revenue's ten district offices.
- The volume of calls increased substantially, following each of the Department's targeted mailings.

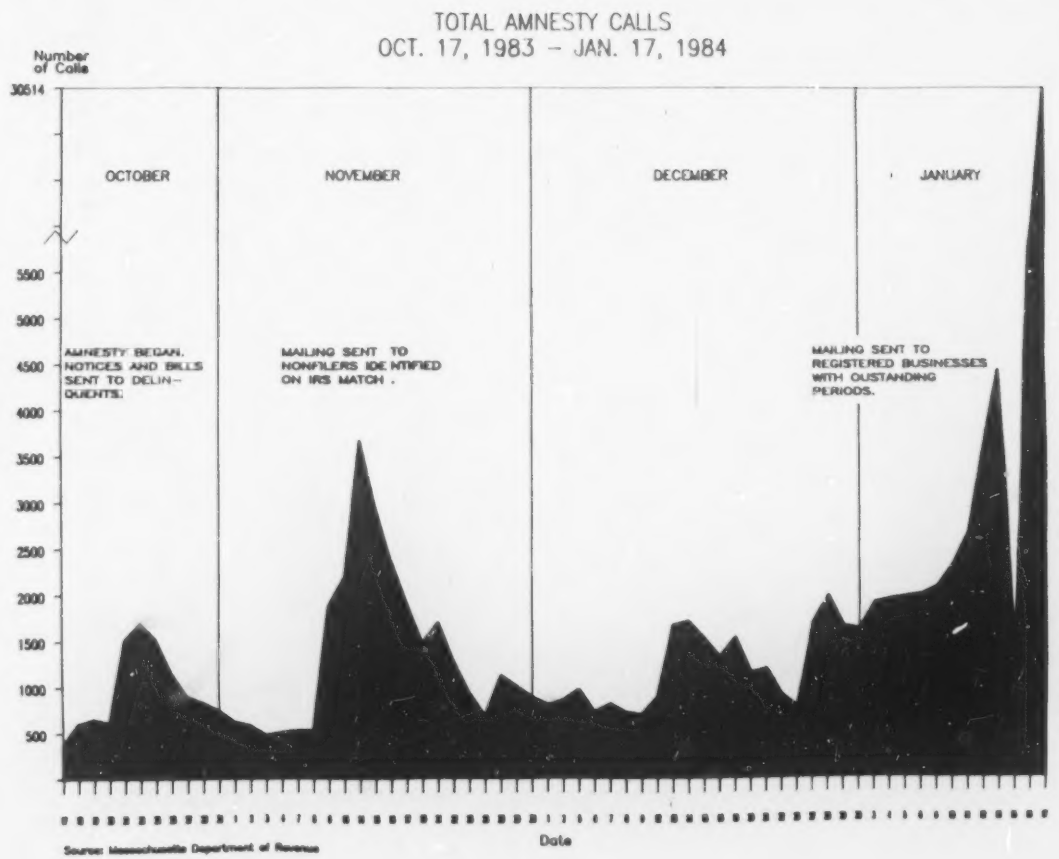
2. Applicants

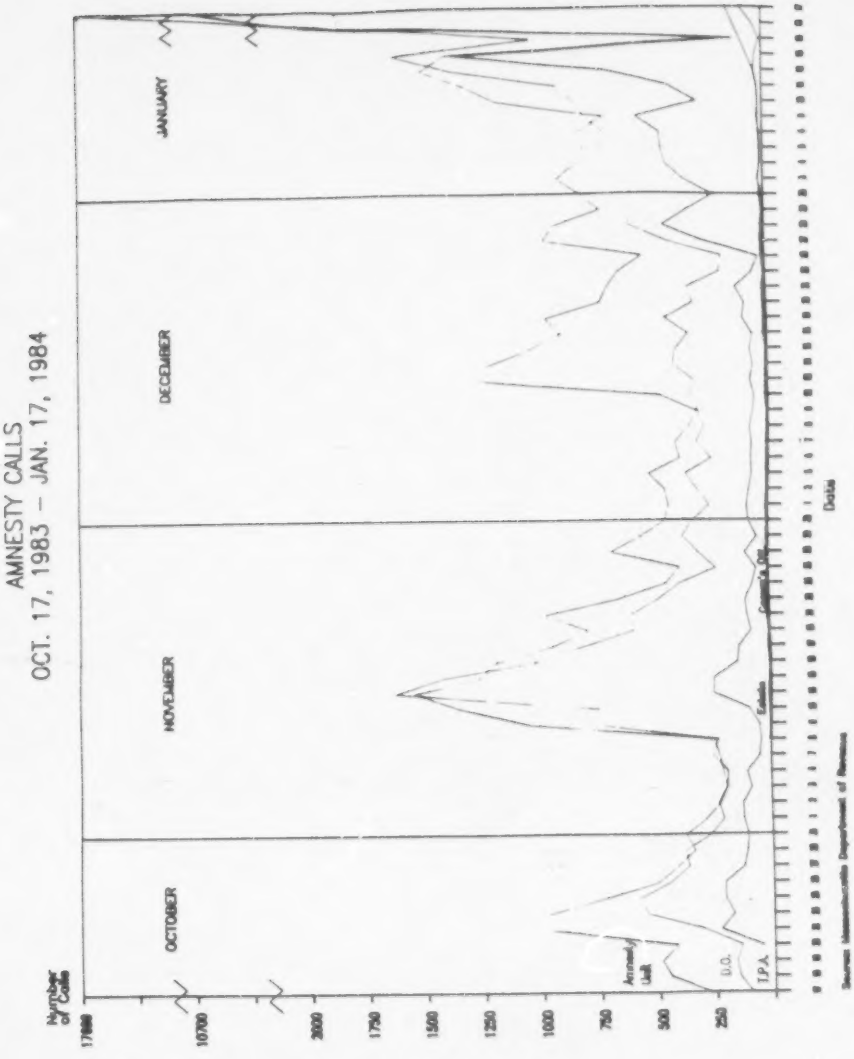
- 46,951 individuals or corporations applied for Amnesty during the three-month period.
- The majority of these applicants were individual income taxpayers, accounting for 60 percent of all payments.



* Includes only 3 days: January 15th, 16th and 17th.

Source: Department of Revenue


TOTAL AMNESTY CALLS
OCT. 17, 1983 – JAN. 17, 1984
Number of Calls
30514
5500
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
OCTOBER
NOVEMBER
DECEMBER
JANUARY
AMNESTY BEGAN. NOTICES AND BILLS SENT TO DELIN-- QUENTS.
MAILING SENT TO NONFILERS IDENTIFIED ON IRS MATCH .
MAILING SENT TO REGISTERED BUSINESSES WITH OUSTANDING PERIODS.
Source: Massachusetts Department of Revenue
Date


AMNESTY CALLS
OCT. 17, 1983 – JAN. 17, 1984
Number of Calls
17868
10700
3000
1750
1500
1250
1000
750
500
250
OCTOBER
NOVEMBER
DECEMBER
JANUARY
Average Call
D.O.
T.P.A.
Exodus
Source: Telecommunications Department of Montana
Dallas

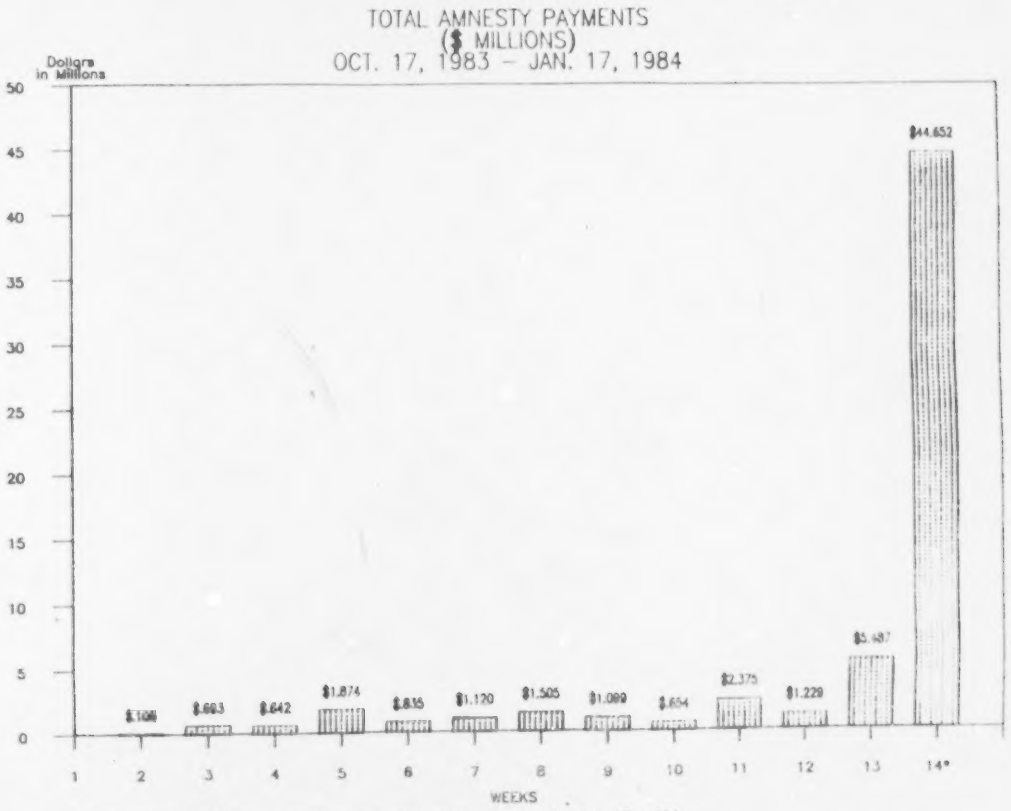
IV B. AMOUNT OF PAYMENTS

1. Total Payments

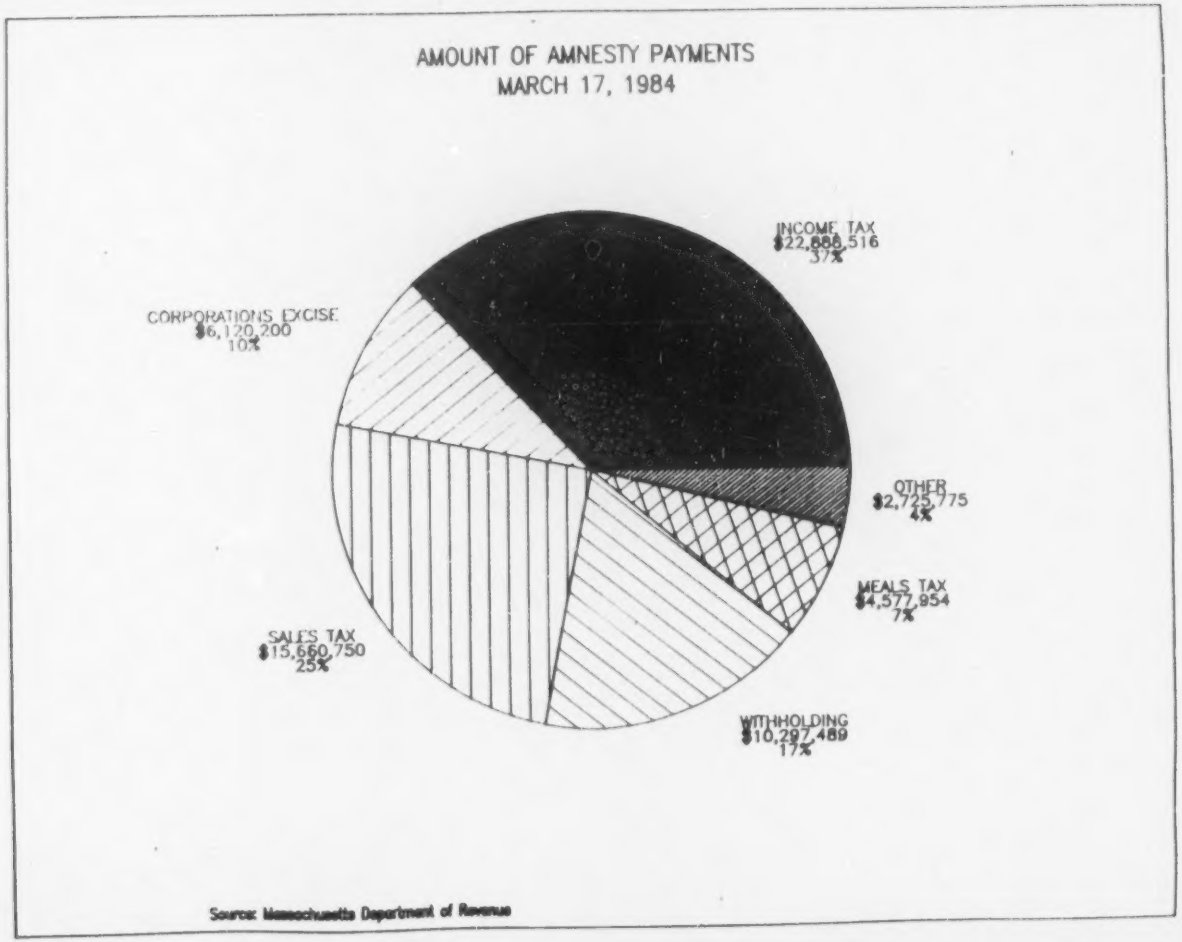
   - $62,270,684.17 in Amnesty payments has already been deposited.
   - More revenue is expected from adjustments to accounts.

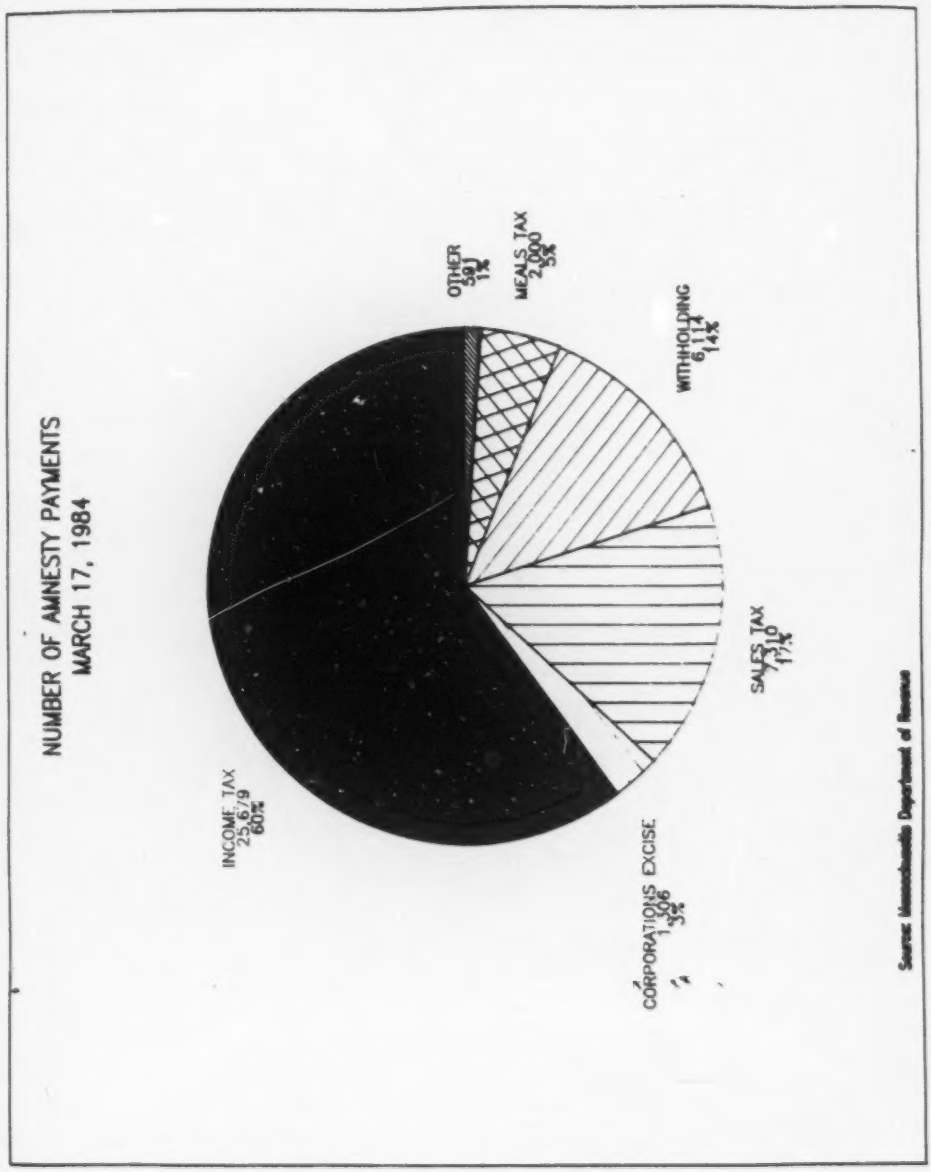
2. Breakdown of Payments

   - Individual income tax, sales tax, withholding tax and corporation excise accounted for the majority of these payments.
     - Individual income tax accounted for $22.9 million or 37 percent of the total;
     - Sales tax was responsible for $15.7 million or 25 percent of the total;
     - Withholding tax amounted to $10.3 million or 17 percent; and
     - Corporation Excise brought in $6.1 million, or 10 percent.
   - Over two-thirds of the payments came in during the last three days of the program. (This includes mail postmarked by January 17, 1984 and subsequent adjustments made to accounts.)
   - The payments ranged from a high of $1.08 million for Corporation Excise to 8 cents for individual income tax.



* Includes adjustments to accounts and mail received through Mar. 15, 1984, but postmarked no later than January 17th.
Source: Massachusetts Department of Revenue


AMOUNT OF AMNESTY PAYMENTS
MARCH 17, 1984
INCOME TAX
$22,688,516
37%
CORPORATIONS EXCISE
$6,120,200
10%
OTHER
$2,725,775
4%
MEALS TAX
$4,577,954
7%
SALES TAX
$15,660,750
25%
WITHHOLDING
$10,297,489
17%
Source: Massachusetts Department of Revenue


NUMBER OF AMNESTY PAYMENTS
MARCH 17, 1984
INCOME TAX
25,679
60%
CORPORATIONS EXCISE
1,506
3%
SALES TAX
7,310
17%
WITHHOLDING
6,114
14%
MEALS TAX
2,000
5%
OTHER
391
1%
Source: Massachusetts Department of Revenue

V. COSTS OF AMNESTY PROGRAM

- To date, the total cost of the Amnesty program is $1.23 million:
  - **Overtime** $1,103,000
    - 1,004 employees worked 78,737 hours of overtime.
  - **Printing and Supplies** $46,000
    - Billboards
    - Signs for buses and subway cars
    - Posters in English and Spanish
    - Amnesty brochures
    - Amnesty request forms
    - Letters and inserts for mailings
  - **Postage** $68,000
    - Letters and bills sent to all delinquents
    - Notices sent to nonfilers identified through IRS match
    - Letters sent to registered businesses with outstanding filing periods
  - **Advertising** $13,000
    - National ad placed in Wall Street Journal
    - Ads placed in newspapers in border states
- Given the volume of case research and processing which remains, additional overtime expenses are anticipated.
- Every dollar invested in the Amnesty program has provided an additional $51 in revenue for the Commonwealth. The return on investment, therefore, is 51 to 1.

VI. EFFECTS OF AMNESTY ON OTHER COLLECTIONS OF DELINQUENT TAXES AND TOTAL REVENUES

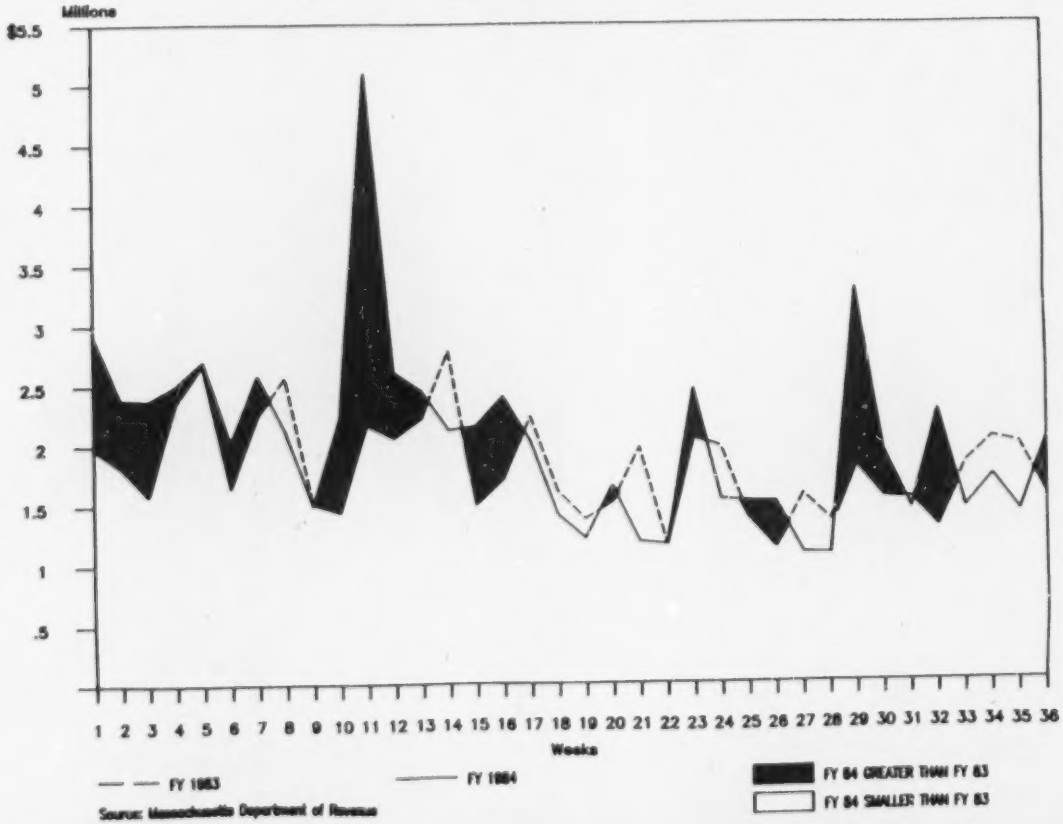
1. Delinquent Tax Collections

- Excluding Amnesty, delinquent tax collections for the first 36 weeks of the 1984 fiscal year were $8.3 million ahead of the first 36 weeks of fiscal year 1983. This represents a 12.8 percent increase.
- Fiscal year 1984 delinquent tax collections exceeded collections for the same period in FY 1983 before, during and after the Amnesty program.
  - Collection of delinquent taxes for FY 1984 were $7.2 million ahead of FY 1983, before the Amnesty program began.
  - This gain increased to $7.8 million during the Amnesty program.
  - For the seven weeks after the close of the Amnesty program, the gap increased by an additional half-million dollars to $8.3 million.
- At no point during FY 1984 have total delinquent tax collections fallen below the comparable year-to-date figures for FY 1983.

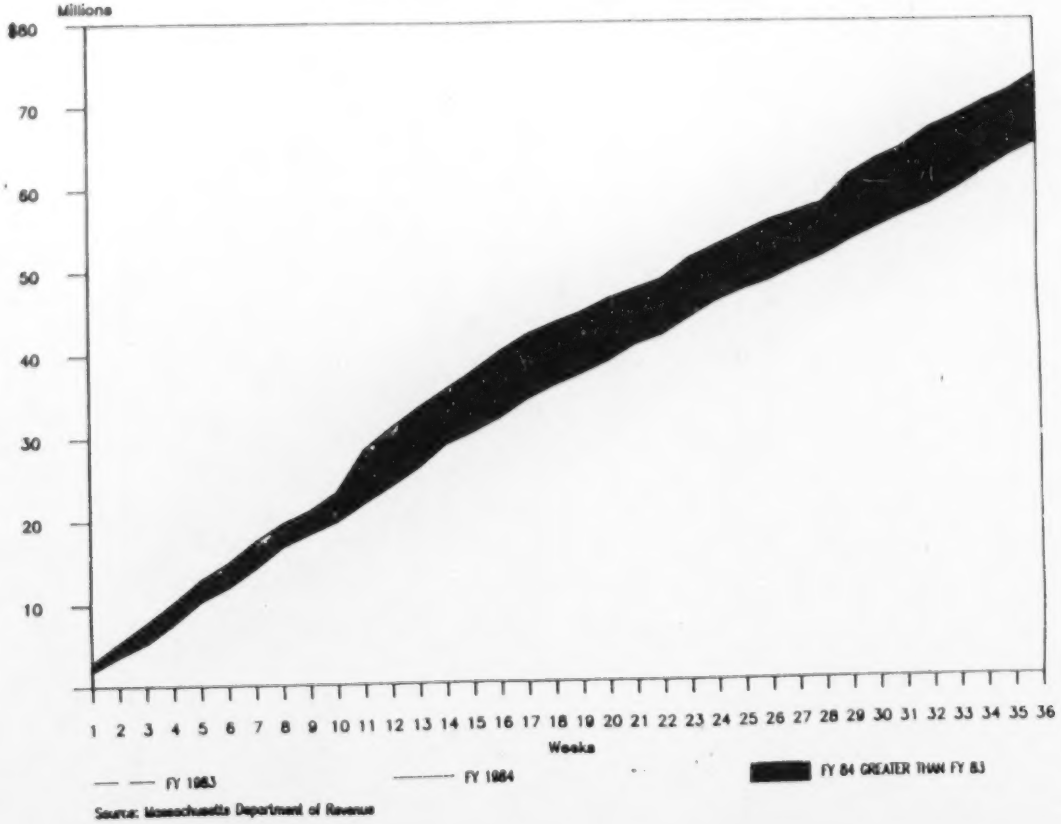
2. Total Revenues

- Overall revenues are 15.7% ahead of the prior fiscal year to date, 13.7% excluding Amnesty.
- Individual income tax, the category with the largest impact under Amnesty, is ahead 14.5% for the year to date, 13.2% when Amnesty is excluded.

COLLECTIONS OF DELINQUENT TAXES: A WEEKLY COMPARISON
FY 1983 VS. FY 1984, EXCLUDING AMNESTY PAYMENTS



CUMULATIVE COLLECTION OF DELINQUENT TAXES: A WEEKLY COMPARISON
FY 1983 VS. FY 1984, EXCLUDING AMNESTY PAYMENTS



Source: Massachusetts Department of Revenue

VII. CONCLUSIONS

Amnesty worked in Massachusetts. The program allowed literally thousands of individuals and corporations to come in voluntarily to admit past wrong-doings, settle up and never have to look back. Given the severity of the newly authorized sanctions and heightened enforcement activity, Amnesty provided a window of opportunity to change bad tax habits. To the extent that the Amnesty program extended to delinquents as well as evaders, it could be interpreted as merely a one-time windfall of accelerated collections. It is, however, interesting to note, that even without Amnesty collections, the Department did better in its regular delinquent tax collections during the period of the program than in the comparable period in the prior year.

At this point, it is difficult to determine whether this success is a result of the Amnesty program itself or a combination of events, unique to Massachusetts. The fundamental components of the Amnesty program -- public awareness of stricter penalties for tax evasion, aggressive enforcement practices prior to the Amnesty period and creative means of spreading the word -- are clearly integral parts of any Amnesty equation. In many respects, the Massachusetts Tax Amnesty experience may have been unique -- the result of a fertile accounts receivable file of tax delinquents, an under-utilized system of computer matches and a Department of Revenue which had, in the past, suffered from a poor public perception of its internal management. All of this combined with a new commitment to the aggressive use of innovative collection techniques and a Governor and Legislature who provided their full support may have made the Massachusetts experience unique.

However, in a nation struggling with a $200 billion deficit and conservative estimates of the federal tax gap at $100 billion, perhaps further scrutiny of the Massachusetts experience can provide useful lessons for increasing voluntary compliance. At a time when so many states and municipalities are strapped for revenues, the windfall alone of an Amnesty program merits further investigation.

While Amnesty was a spectacular success, it took only a minor bite of the problem which continues to exist in other states, the nation at large and here in the Commonwealth. Results from the program are encouraging, but they by no means signify a cureall or a curative for the underlying problem. Amnesty was only one of a broad range of creative tools to combat a problem which persists in Massachusetts.

This preliminary analysis is intended to take only a brief glimpse at the Massachusetts Tax Amnesty program. Plans for further review and in-depth analysis are well underway. Beyond its impact on collections, Amnesty represents an even more fertile area for examination in terms of the unique window it provides into a large population of tax evaders and delinquents --- who they are, why they acquired their bad tax habits, what previous collection tools had failed to disclose and, most importantly, what motivated them to voluntarily take advantage of the chance to come in and come clean. Perhaps, as Commissioner Ira Jackson characterized it, the combination of "fear, guilt and gratitude" created the winning formula. We're hopeful that further analysis will answer these as well as other as yet unasked questions.

Where can I get more information?

AMNESTY forms and information can be obtained from any of the DOR district offices listed below. In addition, the DOR AMNESTY Unit will have extended hours during the three-month period:

8 am to 6 pm	Monday Friday
10 am to 4 pm	Saturday

AMNESTY HOTLINES

Boston area	491-0838
Statewide, toll-free	1-800-521-6596

BROCKTON 486 Forest Ave.	588-7570
CAMBRIDGE 215 First St.	491-0838
FALL RIVER 1670 President Ave.	675-2431
FITCHBURG 470 Main St.	345-0381
GREENFIELD 57 Wells St.	774-2740
HYANNIS Iyannough Rd.	775-7784
LOWELL 21 Palmer St.	458-7583
PITTSFIELD 74 North St.	442-6585
SALEM 10 Colonial Rd.	744-0210
SPRINGFIELD 436 Dwight St.	737-1424
WORCESTER 75 Grove St.	753-4400

Or, write to: AMNESTY
Mass. Dept. of Revenue
P.O. Box 7044
Boston, MA 02204

1000-683-P 175077

WARNING!
TAX EVASION IS NOW A FELONY CRIME.

AMNESTY
AMNESTY
AMNESTY
AMNESTY

A Last Chance for Tax Evaders and Tax Delinquents

Commonwealth of Massachusetts
Department of Revenue

AMNESTY: A Warning and an Opportunity.

Tax evasion has been made a felony crime in Massachusetts, punishable by up to five years in jail and/or fines of up to $100,000 for individuals and $500,000 for corporations. The State can also revoke the licenses of practitioners who fail to file or are delinquent on tax payments.

Tax delinquency has become increasingly expensive as well. The current interest rate is 18%, plus penalties that can accumulate up to another 50%.

The Massachusetts Department of Revenue (DOR), meanwhile, has new legal powers, more auditors and collectors, and improved computer capacity to go after both tax evaders and delinquents.

If you are in either category, you are in for trouble, both financial and legal. Now, a last chance alternative is being offered for you to avoid that trouble.

The Commissioner of Revenue has set a three-month TAX AMNESTY program from October 17, 1983 to January 17, 1984.

During that period, you can settle your State tax obligation without any penalty charges, and DOR will *not* refer your past violations for criminal prosecution.

Who is eligible?

The AMNESTY program is open to anyone:

- who has failed to file a Massachusetts tax return;
- who has underreported income;
- who has overreported deductions; or
- who is delinquent in paying a past State tax obligation.

Who is not eligible?

AMNESTY is *not* open to those who are the subject of current tax-related, criminal investigations or court prosecutions.

How does AMNESTY work?

You must apply in writing to DOR on a special form which has been prepared for this purpose. Forms are available at any of the DOR offices.

What are the penalties involved?

There are two kinds of penalties which will be waived if you qualify for AMNESTY.

Late filing of a return provides a penalty of one percent (1%) a month of the amount due, up to a maximum of 25%.

Late payment provides a penalty of one-half percent (½%) a month, also up to a maximum of 25%.

There are other penalties which apply to partnerships, promoters and those involved in handling corporate returns. They are spelled out in Chapter 62C, Section 34 of the Massachusetts General Laws.

How is payment made?

You must make full payment of all taxes and interest you owe to qualify for AMNESTY on the penalties. You can *not* get AMNESTY on one tax obligation while you still owe another.

Payment of taxes and interest you owe must be by either ***certified check or money order.***

What tax periods are covered by AMNESTY?

All tax returns and payments that were due ***before October 17, 1983*** are eligible for AMNESTY relief.

Does AMNESTY affect a pending appeal?

If you have an appeal pending on a tax assessment, before either DOR, the Appellate Tax Board or the State Supreme Court, you are eligible for AMNESTY, provided you pay the basic tax and interest. After making payment, you still have the right to pursue the appeal of your case to the courts.

What about criminal prosecution?

The Commissioner of Revenue, who initiates virtually all criminal tax cases in Massachusetts, will make *no* referrals to the Attorney General or District Attorneys of either individuals or corporations which act in good faith under AMNESTY.

What about related federal taxes?

DOR has an agreement with the Internal Revenue Service (IRS) for the exchange of tax information. Therefore, what you disclose to DOR under the AMNESTY program will also be available to the IRS.

You should be prepared to clear up your federal tax obligations as well.

Will AMNESTY returns be checked?

Any return filed under AMNESTY will be subject to verification and assessment under Massachusetts law. If you want to take advantage of AMNESTY, and avoid criminal investigations and referrals for prosecution by DOR for past filing violations, clear up your tax bills completely and truthfully.

17344-9-83-175877

MASSACHUSETTS DEPARTMENT OF REVENUE
REQUEST FOR AMNESTY

To qualify for AMNESTY:

- You must file this request, receive Department of Revenue approval, and pay all taxes and interest due on or before January 17, 1984;
- You must voluntarily disclose to the Department of Revenue all current Massachusetts tax liabilities;
- You must file all outstanding Massachusetts tax returns due to the Department of Revenue; and
- You must not be under current tax-related criminal investigation by the Department of Revenue or Attorney General.

If you agree to satisfy all of these criteria, please complete this form.

Name _____ Telephone: Home _____
Work _____

Address _____ Occupation(s) _____

Spouse's Name (if filing jointly)

_____

Spouse's Social Security Number

_____

1. List below all names, social security numbers, federal identification numbers and tax types under which you have filed returns, should have filed returns, and/or received bills from the Massachusetts Department of Revenue. List any additional information on the back of this form.

Taxpayer's Name(s)	Social Security Number(s) or Federal Identification Number(s)	Tax Type(s)

2. Are there any tax periods for which you have not filed Massachusetts tax returns? ___Yes. ___No. If yes, enter all tax types and taxable periods for which you have not filed returns. _____
3. Do you have an abatement or any other appeal pending with the Department of Revenue? ___Yes. ___No. If yes, please explain the nature of your appeal. _____
4. Have you filed for bankruptcy? ___Yes. ___No. If yes, enter the date filed, the court in which you filed, your docket number, and the Chapter under which you filed. _____
5. Are all of the businesses you listed above still going concerns? ___Yes. ___No. If no, enter the Federal Identification Number(s) and the date(s) your business(es) ceased operation. _____

Under the penalties of perjury, I declare that to the best of my knowledge and belief, the information contained in this request is true, correct and complete. I further agree to satisfy all specified eligibility criteria.

Signature of Taxpayer _____ Date _____

If you have any questions, call (617) 491-0838 or toll-free, 1-800-521-6596.

AMNESTY
Mail to: Massachusetts Department of Revenue
P.O. Box 7044

SAMPLE NEWSPAPER ADVERTISEMENT

MASSACHUSETTS TAX AMNESTY
A Warning And An Opportunity

Massachusetts is cracking down hard on individual and corporate tax delinquents and evaders.

- Collection of delinquent taxes is up 70% over last year; audits are up 71%.
- Criminal prosecutions are being stepped up against evaders, who now face felony charges, jail sentences up to five years, and penalties up to $100,000 for individuals, $500,000 for corporations.
- The Revenue Department is adding new computer equipment and 200 more auditors, collectors and criminal investigators to implement strong new legal powers, including the right to cancel public contracts and licenses to conduct a trade or profession.

If you, your company or clients have any unresolved or unreported Massachusetts tax obligations, be warned. Be aware of a last chance Amnesty to settle those problems with no penalty charges or legal repercussions. But, **the Amnesty program ends January 17.** You must apply and pay tax and interest by that deadline.

Others have gotten the message and moved into action:

- We have now had over 55,000 Amnesty inquiries from all over the country.
- Over 12,000 individuals and corporations have paid us more than $10 million in back taxes and interest.
- One non-Massachusetts company filed for the first time and paid us more than $750,000 in back taxes and interest. With Amnesty, the company saved over $100,000 in penalties. It also has our assurance there will be no criminal action.

For delinquents who fail to take advantage of Amnesty, and for evaders we detect after January 17, it will be far different.

Information and Amnesty forms can be obtained from Massachusetts Revenue Department Offices in:

New York (212)682-0776 Houston (713)650-0390
Atlanta (404)874-2920 Los Angeles (213)384-5148
Chicago (312)987-9040

or wire me directly.

Ira A. Jackson, Commissioner
Massachusetts Department of Revenue
100 Cambridge Street
Boston, Massachusetts 02204

AMNESTY ENDS IN 8 DAYS

PROTECTING HONEST TAXPAYERS BY MAXIMIZING COMPLIANCE WITH EXISTING TAX LAWS

A REPORT BY:
THE MASSACHUSETTS DEPARTMENT OF REVENUE
DECEMBER, 1984

PROTECTING HONEST TAXPAYERS BY MAXIMIZING COMPLIANCE WITH EXISTING TAX LAWS

The fiscal year which ended in June of 1984 saw the largest single year growth in revenue in the history of the Commonwealth. This remarkable increase of $665 million is noteworthy because it was achieved without resort to broad-based tax increases. Economic growth was a major force behind this revenue increase. However, not all of the increase is explained by our strong economy.

An estimated $166 million or 25% of the total $665 million increase in FY84 revenue is attributable to increased voluntary compliance. This estimate does not include the substantial revenues collected (a sizable $67 million) under the Amnesty program or revenues directly attributable to heightened enforcement activity (which, for the second year in a row, showed significant increases in virtually all areas). Additional personnel resources, improvements in computer capabilities, and tough new laws provided by the Legislature, firmly and visibly enforced, enabled the Department of Revenue to improve compliance with existing tax laws: increasing revenue to fund vital state services for the citizens of the Commonwealth without broad-based tax increases.

Maximizing voluntary compliance requires tax administration which is **honest, firm** and **fair**. A wide range of management and enforcement initiatives at the Department of Revenue have contributed to these basic goals.

HONESTY

The integrity and professionalism with which a state taxes its citizens is a fundamental measure of the degree to which its government upholds the public trust. Public confidence in the integrity of tax administration is a critical component in encouraging voluntary compliance.

Several major management initiatives have been implemented to promote, monitor and seek to assure the honesty and professionalism of all DOR employees and their interactions with taxpayers. Principal among these are:

Division of Inspectional Services

The establishment of a Division of Inspectional Services with two important new offices: an Office of Internal Affairs to ensure employee integrity and protect employees from outside influence, and an Office of Internal Audit to protect the integrity of internal management systems.

Pre-Hiring Checks

Full criminal background and tax filing checks on all employees of DOR to insure the highest standards are met first and foremost by those enforcing the tax laws of the Commonwealth.

Professionalism

A new emphasis on professionalism and career advancement for DOR employees through the implementation of new training and education programs as well as improved performance appraisal systems for professional advancement.

These major organizational and systemic changes have resulted in the strongest possible guarantee to the citizens of the Commonwealth that their tax agency is one which firmly recognizes the need for integrity safeguards and professional conduct.

FIRMNESS

REAP

In the summer of 1983 the Department's drive to increase voluntary compliance moved into high gear with the passage of REAP (the Governor's Revenue Enhancement and Protection Program). REAP provided the Department of Revenue with strengthened enforcement tools to combat tax evasion. The most important of those tools are described below.

Criminal Penalties

REAP authorized increased penalties for a number of tax offenses. For example, willful tax evasion was classified as a felony, and is now punishable by a fine of up to $100,000 ($500,000 for a corporation) or five years imprisonment. In July, 1984, the Department obtained the first jail sentence ever imposed in a tax evasion case in the Commonwealth, and that was imposed under the old misdemeanor statute. Referrals by the Department for criminal prosecution increased 59% in fiscal 1984. In the near future, cases being brought before the grand jury will cover offenses under the tougher REAP felony law.

Tax Collection by Private Collectors

Under REAP, the Commissioner of Revenue has the authority to hire private collection agencies to supplement the Department's own efforts to collect from delinquent taxpayers. Over $80 million of the oldest delinquent accounts have been assigned to private collection agencies -- freeing up Department collectors to pursue more current accounts. At the same time, the private collection agencies are bringing in revenues from accounts which were previously thought to be uncollectible.

License and Contract Revocation

Persons holding state or local business licenses or persons doing business with state or local governments must now be in compliance with state tax laws in order to be licensed by or do business with state or local governments. Other government agencies now submit to the Commissioner of Revenue lists of these license holders and providers. The Revenue Department then matches those names against tax files. When the match shows taxes owed or a failure to file, the Commissioner can then petition to revoke the offender's license or contract.

At the beginning of fiscal 1984, the Department matched a list of vendors with 1982 tax data. Of 123,000 vendors with state government, 10,000 or 8.5% were found to be delinquent. Just one year later, after the revocation program was well underway, a second vendor match was conducted. This time only 2,000 vendors were found to be in non-compliance. As a result of this program, the non-compliance rate was lowered from 8.5% to 1.8%, an improvement of 400%.

Boats

Harbormasters are now required to file annually with the Commissioner a list of boats registered out of state which anchor in waters under their jurisdiction for a period of two or more weeks. This requirement is the keystone in the Department of Revenue's drive to seize the boats of delinquent taxpayers. This seizure effort both speeds the payment of delinquent taxes and deters other boat owners from becoming delinquent.

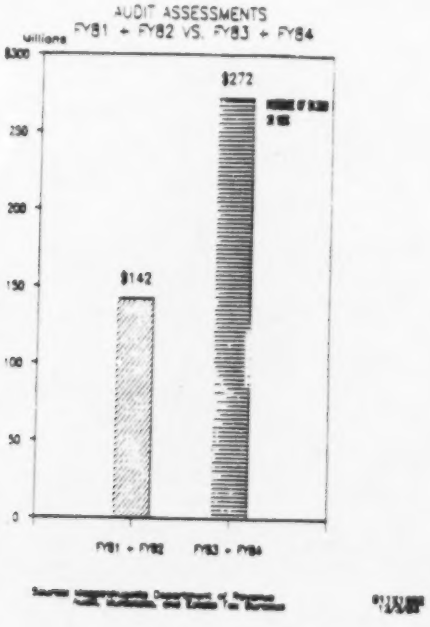
This high visibility enforcement tool has been responsible for several million in additional sales tax collections directly attributable to boat tax evaders. The major revenue impact of this initiative, along with others involving airplanes and luxury cars, however, has been additional voluntary compliance across all taxes.

Amnesty

REAP provided for a one-time Amnesty period of three months when delinquent taxpayers could make voluntary payments of delinquent taxes without penalties. Amnesty was an unprecedented success. Over 50,000 businesses and private citizens applied to the program, settling all types of accounts. Delinquent tax collections from the program are expected to exceed $80 million once all accounts are settled. Even more important than this one-time collection of delinquent taxes is the ongoing annual revenue benefit from changing the bad tax habits of tens of thousands of citizens.

AUDIT STRATEGY

REAP provided a legislative tool-kit to improve voluntary compliance. But the Department of Revenue has also implemented an ambitious management agenda, and an important part of that agenda is improved audit strategy. In FY84, the Department of Revenue assessed an additional $148 million dollars from audit activity. In FY83, $124 million in additional taxes were assessed through audit. These results represent an impressive improvement over previous years. The two year total of $272 million in audit assessments represents an increase of $130 million or 92% over the prior two years.



This improved audit performance is primarily attributable to the initiatives described below, some of which are completely implemented, and some of which are only partly implemented. All will result in further improvements when they become fully operational.

Multi-Tax Audits

Many corporations are liable for a number of taxes -- corporate excise, sales tax, meals tax and withholding tax. Until FY85 however, the Department of Revenue would audit a taxpayer for only one type of tax at a time. Under this system an auditor doing a withholding audit might find a good lead for a sales audit, but there would be delays and duplication of effort when this case was referred to a sales tax auditor, costing the Department time and resulting in unnecessary and unprofessional interactions with corporate taxpayers. Now, specially trained audit teams can perform a comprehensive audit of all the different taxes a corporation is liable for and good leads are referred to appropriate team members.

This approach is the primary focus of the new 128/495 Regional Office scheduled for opening in mid-FY85. This office, located in the heart of Massachusetts' high tech community, will combine the multi-tax audit approach with creative compliance efforts to identify non-filers. It will also offer a service component to help corporations understand the extent of their tax responsibilities.

More Auditors

To deter potential tax evaders the Department must have enough auditors to achieve the level of "market penetration" needed to make the threat of an audit credible. Since fiscal 1981, the Department has increased its number of auditors by 79%. Beyond the substantial increase in annual audit assessments resulting from these additional personnel, the most important benefit is the deterrent effect that increased audit activity has on taxpayers.

Automated Audit Selection

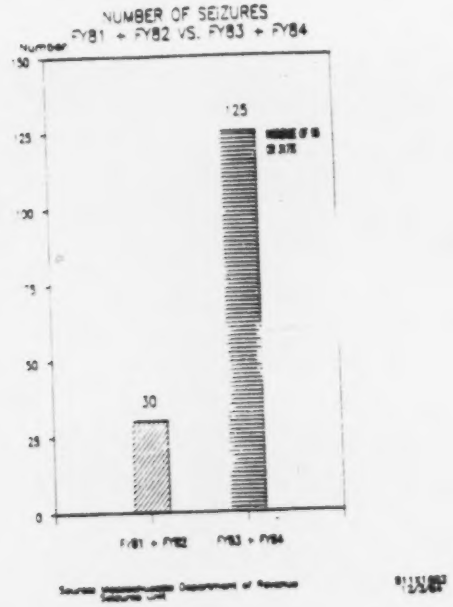
In FY85 the Department began a major effort to create an automated audit selection system. This system will assign weights to different aspects of a return that research has often proven an indication of non-compliance with the tax laws. If the total weight assigned to a return exceeds a certain threshold, the return is flagged for an audit. This increased reliance on computer support to target resources most efficiently is just one of the many ways the Department is using twentieth century technology to better enforce the tax laws and to insure the integrity of internal Departmental decision making.

Informational Exchanges With The IRS

By exchanging information with the IRS, the Department of Revenue identifies potential non-filers and underreporters. Improvements in data processing capabilities will allow increasingly sophisticated matches of IRS and DOR tapes to insure reporting consistency between federal and state returns. They will also match information across taxes to insure, for example, that gross income reported on a federal corporate return matches with gross sales reported on a state meals tax return.

High Visibility Seizures

The Department of Revenue's most serious and visible enforcement strategy is seizing the property of the Commonwealth's most flagrant tax cheats. In the last three years the Department has greatly increased its seizure activity. Restaurants, autos, boats, planes, trucks, buildings and construction equipment have all been taken in a crackdown on such egregious activity as collecting taxes from customers and employees and then failing to turn that money over to the state. In fiscal 1984 and 1983 the number of seizures conducted increased 317% over the prior two fiscal years.



Once again, the major payoff is not only in the taxes collected by seizing property ($4.5 million in FY84) but in the deterrent effect that such seizures create.

FAIRNESS

The Department of Revenue is the only state agency that every year affects virtually every adult citizen of the Commonwealth intimately and personally. At the same time the Department is cracking down on tax evaders, it is extending a helping hand to honest taxpayers who want to comply but who are confused by the complexity of our tax laws. DOR has made a commitment to treat honest taxpayers as though they were customers -- customers who deserve to be served professionally. While the Department is striving to provide taxpayers with prompt, efficient and courteous service in all areas, several actions exemplify the priority the Department has placed on taxpayer service.

Strengthening the Taxpayer Assistance Bureau

With increased staff training and more spacious, professional quarters, the Taxpayer Assistance (TPA) Bureau is at the heart of the Department's effort to treat taxpayers as valued customers. The recent accomplishments of TPA are impressive. In fiscal year 1984, TPA provided counter assistance to 121,332 taxpayers, a 69% increase over the previous year. TPA also responded to 79,686 written inquiries, handled over 410,000 phone calls and conducted 45,795 interviews with taxpayers. Other firsts include installing special facilities to allow access by handicapped taxpayers, providing services in 6 languages, and automating much of the bureau for faster taxpayer assistance.

Creating A Problem Resolution Office

Established early in fiscal 1984, the Problem Resolution Office was designed to assist taxpayers who have encountered serious problems in resolving tax issues and who have exhausted all other normal channels designed to settle taxpayer problems. The Office is responsible for providing not only individualized taxpayer service in difficult cases but for identifying recurring systemic problems and developing Department-wide interventions to address them. The Office also provides a central contact point for legislators seeking responses to constituents' inquiries.

Form Revision

In order to voluntarily comply with the tax laws, citizens must first understand what they are required to do. In fiscal 1984, the Department developed Form ABC -- designed to make it easier for almost two million taxpayers to file their income taxes.

For fiscal 1985, the Department raised the maximum income for Form ABC so that more taxpayers could use it. In addition, the basic income tax form, Form 1, was revised for the first time in two decades. Using graphics, examples, colors and a simpler format, this revised Form 1 and Form ABC were designed to make the process of paying taxes as painless as possible for almost four million adult citizens of the Commonwealth.

In fiscal 1985, the Department will also introduce a corporate excise form for small business corporations -- Form SBC. This form was developed in acknowledgement of the valuable contribution made to Massachusetts' economy by small entrepreneurial operations. Its goal is to make compliance with our complex corporate tax laws a little easier for small businesses.

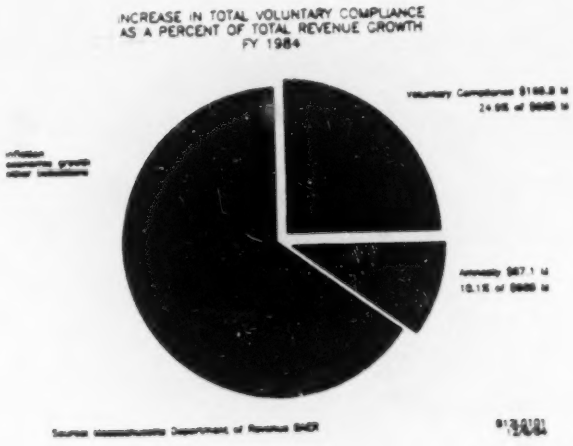
Quicker Refund Turnaround

Beginning in FY84, the Department of Revenue made a commitment to speed up refund processing for income taxpayers. Every year approximately 1.8 million refunds worth some $250 million are issued during tax filing time -- and in FY84, the Department got them out seven weeks earlier than the process was ever completed before. In FY85, the Department has made a commitment to a four-week-turnaround for taxpayers who file an error-free return by early March.

Improvements and internal efficiency gains in the processing of returns have not only made possible the quicker refund turnaround but at the same time the deposit of all income tax payments in record time.

THE RESULTS

The Revenue Department's push to improve voluntary compliance has resulted in increased revenue collections. With the help of economic indicators, statistical analysis and the Department's own records, it is possible to estimate how much revenue growth is due to each of the above factors, and how much is due to improved voluntary compliance. In fiscal year 1984, the Department of Revenue estimates that approximately $166 million in revenue came from improved voluntary compliance. This figure, which does not include the $67 million of FY84 Amnesty revenue, represents about 25% of the year's total revenue growth of $665 million.

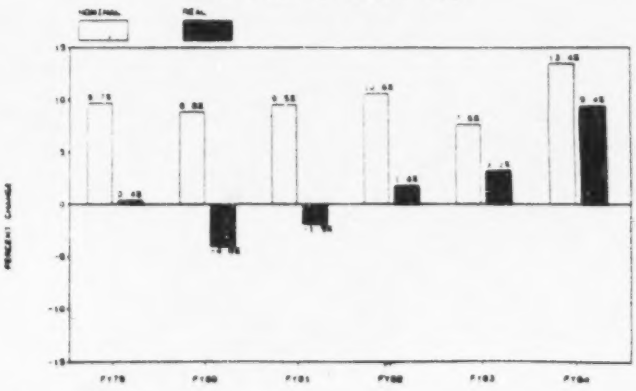


It is extremely difficult to relate the total improvement in voluntary compliance to individual compliance strategies. For example, consider the restaurant that until now has not registered for meals tax, but suddenly does so and begins to comply with the law. What caused this change of heart? Was it the fact that tax evasion is now a felony punishable by five years in jail? Was it the Department's well publicized seizure of other restaurants? Or was it the Department's public education efforts about the seriousness of tax evasion and the many new tools and initiatives the Department is using to detect such evasion? In most cases, we will never know what Departmental action or combination of actions changed the behavior of individual taxpayers. We do know, however, that the Department's overall efforts -- to become more efficient, to provide better service and to promote tougher enforcement -- are working.

The following charts illustrate several ways to look at revenue growth above and beyond economic factors.

First, revenue growth is controlled for the impact of inflation. By comparing real versus nominal revenues, any increases attributable only to inflation can be isolated. In FY84, approximately 4 points of the 13.4% increase over FY83 revenues can be explained by inflation.

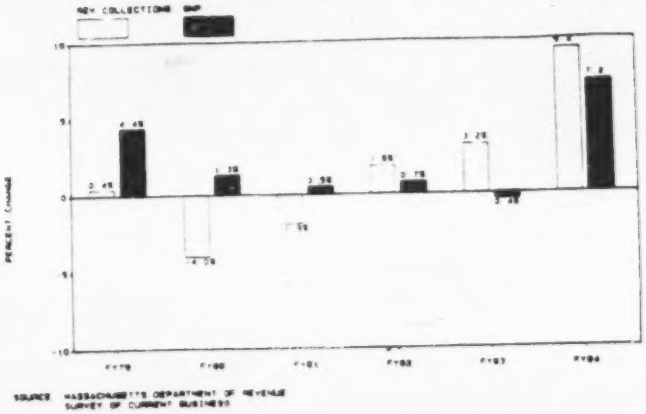
REAL AND NOMINAL REVENUE COLLECTIONS
PERCENT CHANGE
FISCAL YEARS 1979 - 1984



SOURCE: MASSACHUSETTS DEPARTMENT OF REVENUE
* THE CPI-U WAS USED AS THE CONVERSION FACTOR

Another way to isolate the effect of the economy is to compare revenue growth to the growth in the national economy. Increases in Gross National Product are one way to measure, in aggregate, economic growth. When GNP growth is compared to revenue growth (both in real terms to again control for inflation), a real increase of 2.2% remains unexplained.

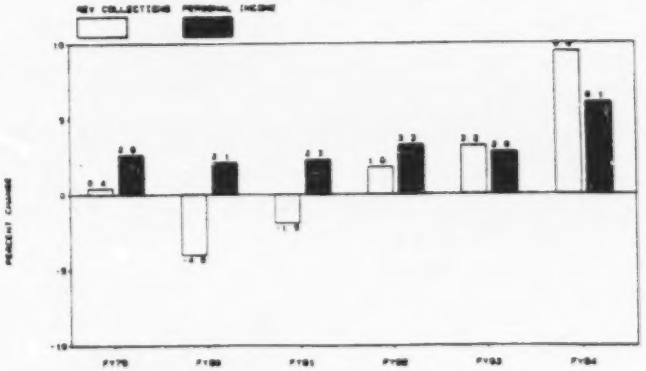
REAL REVENUE COLLECTIONS & REAL GNP
% CHANGE
FISCAL YEARS 1979 THROUGH 1984



SOURCE: MASSACHUSETTS DEPARTMENT OF REVENUE
SURVEY OF CURRENT BUSINESS

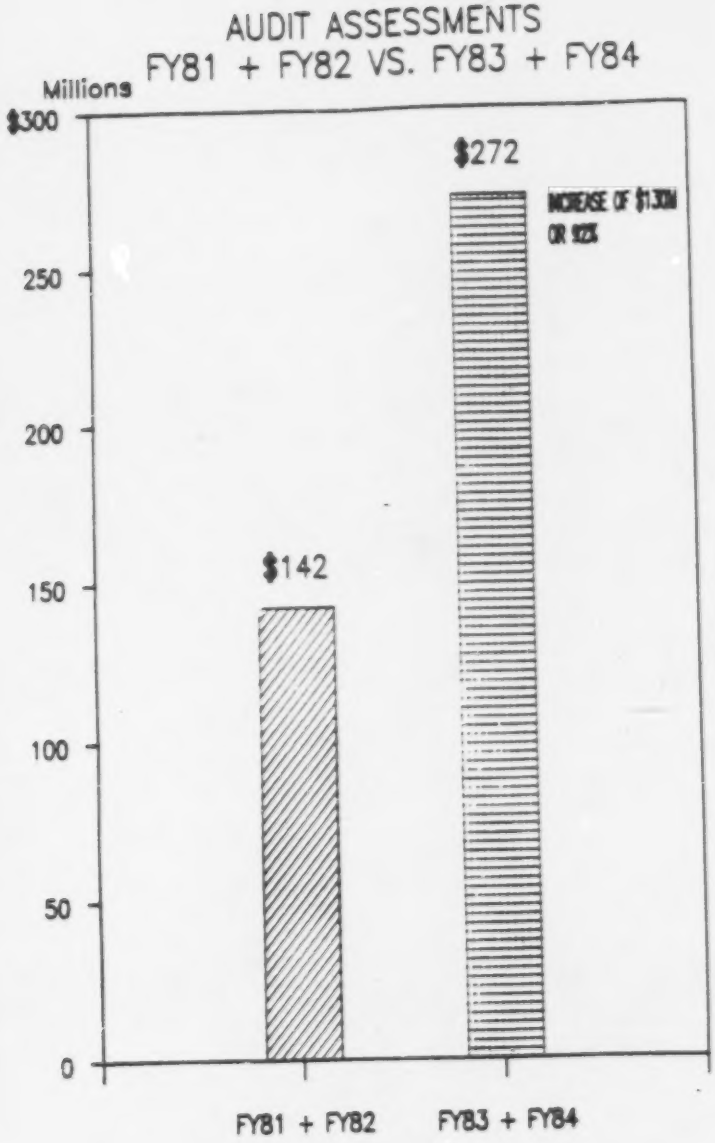
Finally, a more accurate measure of growth in the State's economy can be obtained by using increases in Massachusetts personal income. The following chart compares real growth in revenues with real personal income growth for Massachusetts citizens since FY79. Using this comparison, the economy accounts for a 6.1% increase in FY84 revenue collections; the remaining 3.3% remains unexplained by economic factors alone.

REAL REVENUE COLLECTIONS & REAL PERSONAL INCOME
% CHANGE
FISCAL YEARS 1979 THROUGH 1984



* SOURCE: MASSACHUSETTS ECONOMIC MODEL, PREPARED BY A.D.P. DR. HARVEY S. HENDERSON
** THE CPI-U WAS USED AS THE INFLATION FACTOR

Improved voluntary compliance is good news for everyone: good news for citizens of the Commonwealth who depend upon growing revenue collections to fund needed state services, good news for our booming state economy as revenues are collected from existing sources and the tax burden holds steady or actually declines. Most of all, though, it's good news for honest taxpayers who no longer have to foot the bill for tax evaders.



Source: Massachusetts Department of Revenue
Audit, Multistate, and Estate Tax Bureaus

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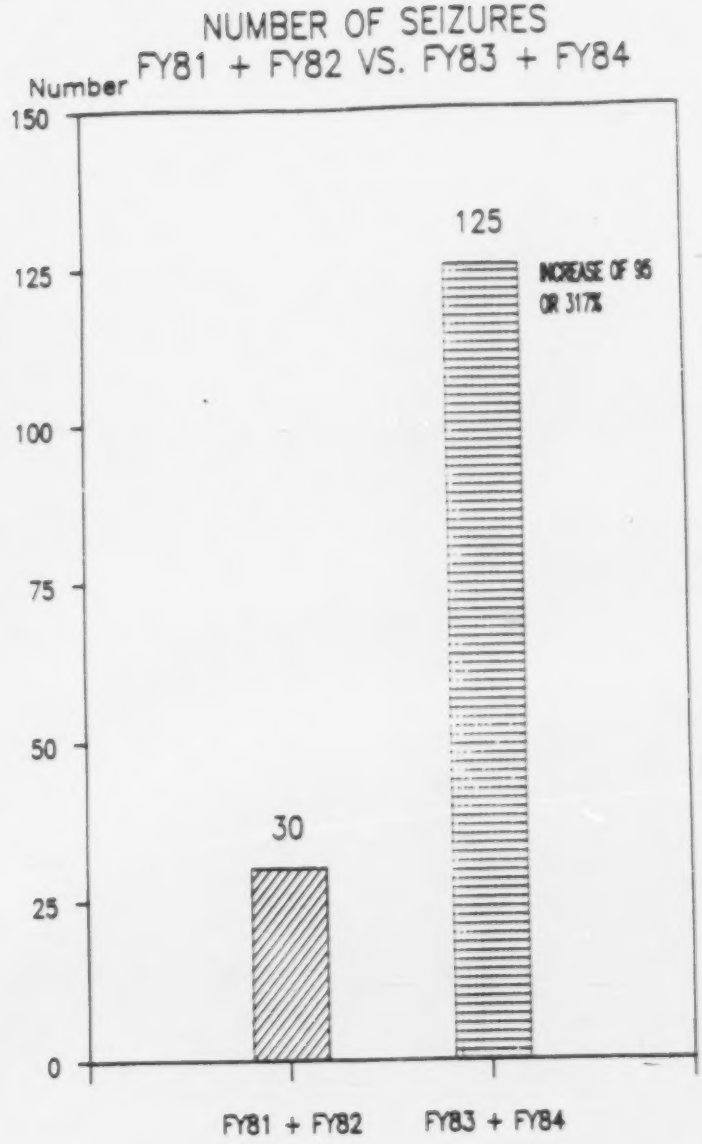
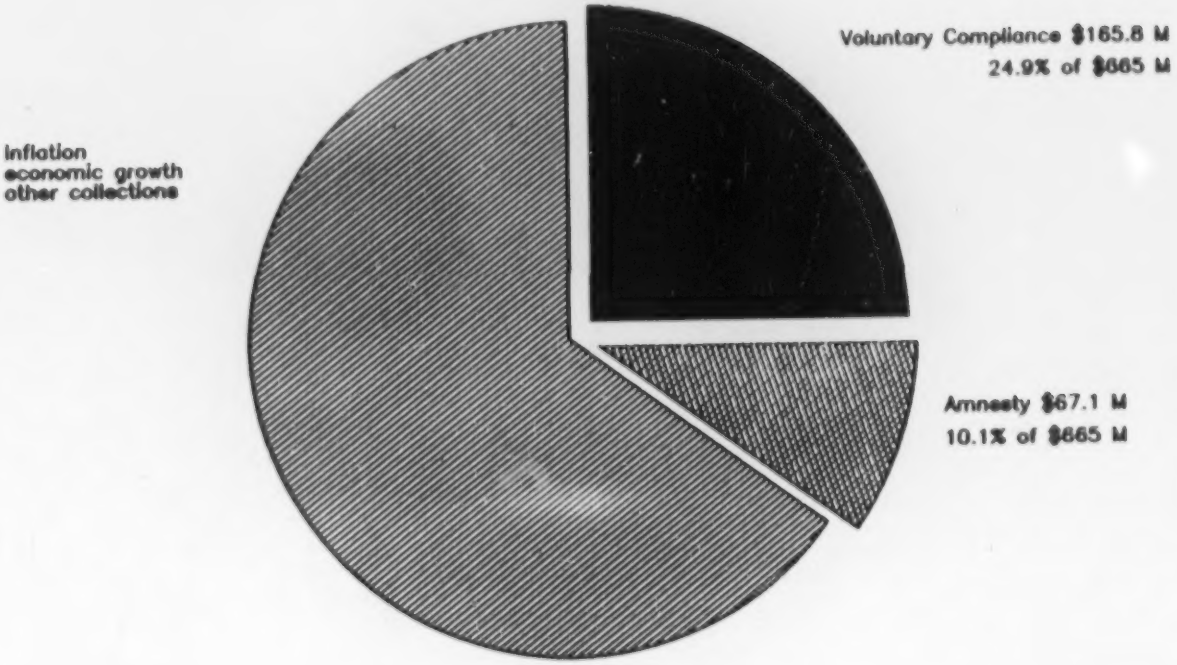


Source: Massachusetts Department of Revenue
Seizures Unit

B11X1603
12/3/84

INCREASE IN TOTAL VOLUNTARY COMPLIANCE AS A PERCENT OF TOTAL REVENUE GROWTH FY 1984



Source: Massachusetts Department of Revenue BAER

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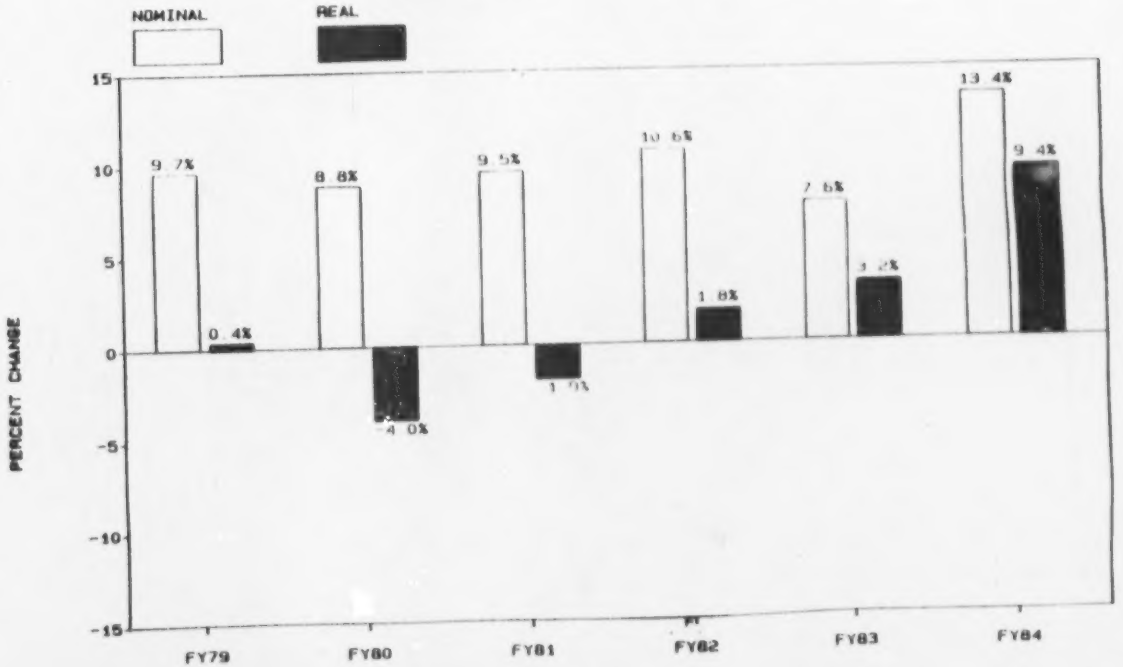
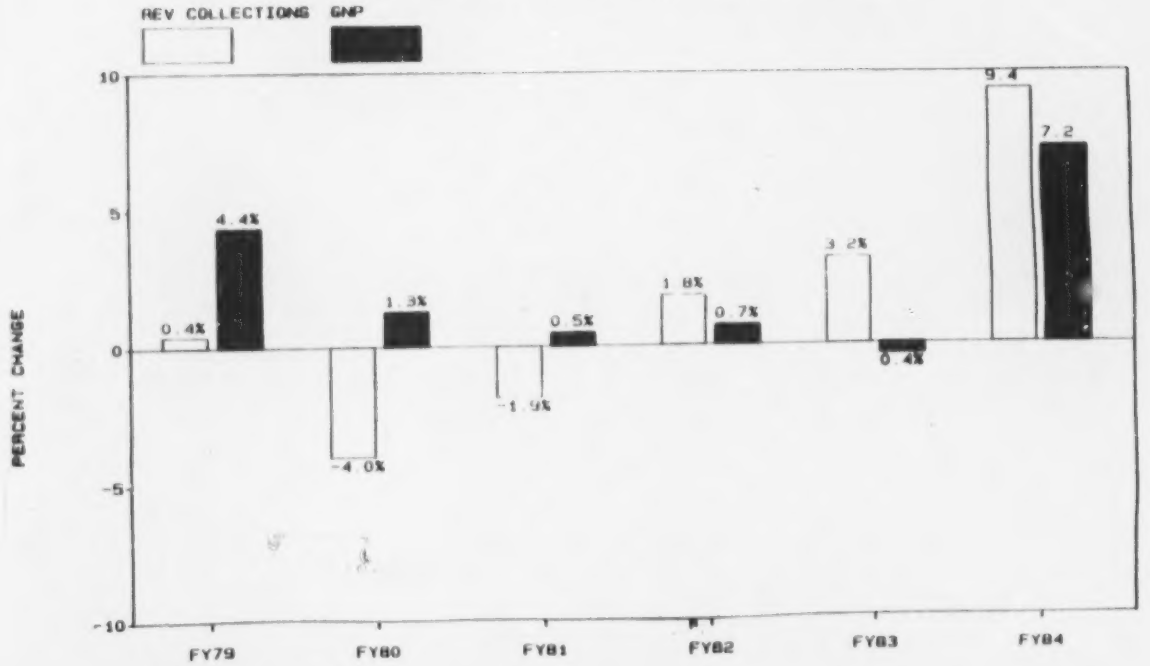
REAL AND NOMINAL REVENUE COLLECTIONS
PERCENT CHANGE
FISCAL YEARS 1979 - 1984



SOURCE: MASSACHUSETTS DEPARTMENT OF REVENUE
...USED AS THE CONVERSION FACTOR.

REAL REVENUE COLLECTIONS & REAL GNP
% CHANGE
FISCAL YEARS 1979 THROUGH 1984

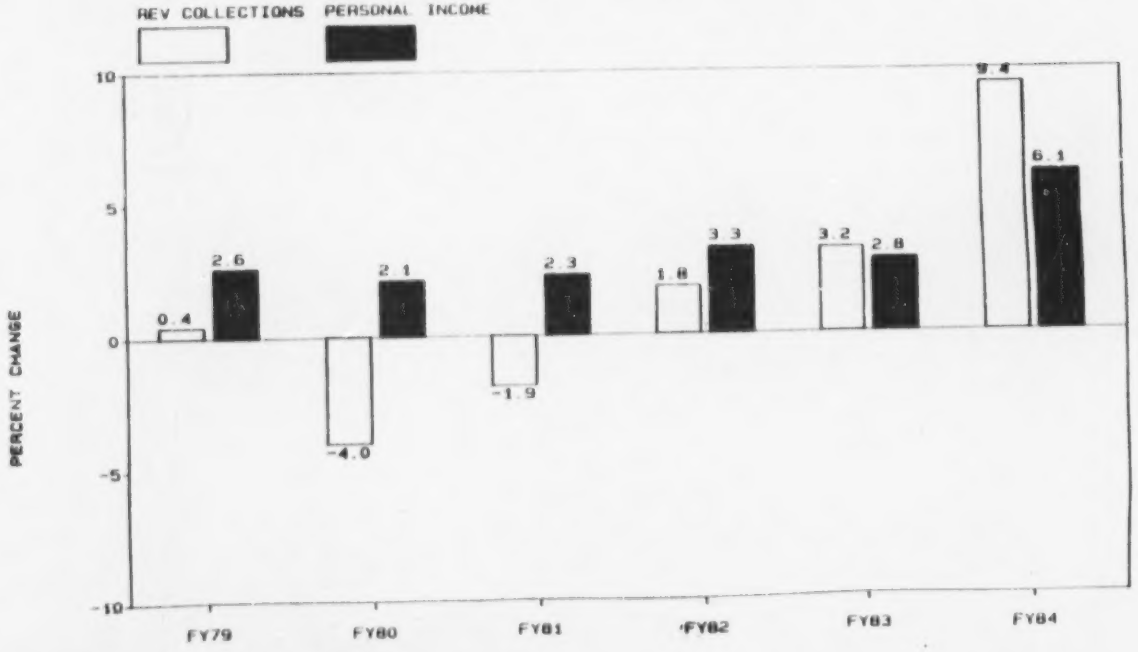


SOURCE: MASSACHUSETTS DEPARTMENT OF REVENUE

REAL REVENUE COLLECTIONS & REAL PERSONAL INCOME

% CHANGE

FISCAL YEARS 1979 THROUGH 1984



* SOURCE: MASSACHUSETTS ECONOMIC MODEL PROVIDED BY A & F IN AUGUST & NOVEMBER.

** THE CPI-U WAS USED AS THE CONVERSION FACTOR.

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The Amnesty Program

- Amnesty was authorized by Section 98 of Chapter 233 of the Acts of the 1983 Massachusetts Legislature, known as the Revenue Enforcement and Protection Program (REAP). It was designed to provide a transition to a new era of tough enforcement. The response was positive, whether from fear, guilt or gratitude -- fear of administrative action, guilt over non-payment or gratitude for the chance to set tax records straight.

- Preparation for Amnesty began the previous spring when the Department conducted an accelerated and highly visible campaign of seizures, criminal prosecutions, audits, liens and levies, and computer matches. This campaign resulted in $128.8 million in delinquent taxes collected in Fiscal 1983, 70% above Fiscal 1982 collections.

- Amnesty was implemented for a three-month period from October 17, 1983, through January 17, 1984.

- Over 400,000 informational letters, bills and brochures were mailed to taxpayers by the Department between mid-October and December, 1983.

- Some 52,000 applications were received by the Department, with a total collection of $83.2 million. Some 3,710 taxpayers received refunds totalling $742,752.

- The program was open to those who had failed to file a Massachusetts tax return, underreported income, overreported deductions or were delinquent on payment of any type of state tax. There was one exception. The program was closed to taxpayers who were the subject of tax-related criminal investigations or court prosecutions.

- Taxpayers seeking Amnesty were required to pay in full all taxes and interest owed the state. They received in exchange a waiver of civil penalties and, in cases of evasion, a promise that there would be no referral for criminal prosecution. The Department announced that all Amnesty files would be available to the I.R.S. through an information exchange between the two agencies.

- Payments ranged from a high of $1.08 million for a corporation excise payment to 8 cents for an individual income tax payment. Over two-thirds of the applications came in during the last three days of the program.

- An estimated $37 return was received on every dollar the Department invested in special costs for the program.

- The effects of Amnesty are apparent in the dramatic rise in collection figures following the program. Revenue collections for Fiscal 1984 totalled $5.611 billion, up a record $664.3 million or 13.4% over Fiscal 1983. We expect this rate of increase to be duplicated again this year.

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REAP and the Massachusetts Revenue Story

- The Revenue Enforcement and Protection (REAP) Act was a 101-section omnibus reform package of tax enforcement statutes. It was passed by the Massachusetts Legislature in June, 1983.

- The major new powers given us under REAP included: tougher criminal (felony) and civil sanctions for tax evasion; the authority to use private sector agencies to collect long delinquent accounts; the authority to terminate state and local licenses when taxes weren't being paid; tax compliance requirement for companies and individuals doing business with the state; 18% interest on delinquent accounts; and provision for a three-month Amnesty period during Fiscal 1984.

- To guarantee enforcement of the new REAP powers and existing compliance statutes and to develop more sophisticated computer technology and programs, allocations for the Department of Revenue have been increased 50% over the past two years.

- Revenue growth for Fiscal 1984 surpassed the estimated 9.6% increase and reached a record 13.4% -- with no increase in broad-based taxes. The original 7.5% growth prediction for Fiscal 1985 has already been increased twice, and now stands at a full 13%. This 26% revenue growth over two years cannot be fully explained by inflation or growth in GNP or personal income, even with the booming Massachusetts economy.

- Those holding state or local business licenses or doing business with state or local governments must now be in compliance with state tax laws. Lists of licensees and vendors are compared with Department tax files to find delinqents and evaders. A match conducted prior to a pilot revocation progam found 10,000 vendors, or 8.5%, were delinquent. One year later, after the program was well underway, a second match found only a 1.8% non-compliance rate -- an improvement of 400%.

- Project Clean Sweep, a pilot check of 44 communities for non-filing and other forms of evasion by business operations, identified $2.6 million in liabilities. Some $1.4 million of that was collected immediately.

- The courts have become tougher in sentencing tax-law offenders. Since July, 1984, three jail terms have been handed down for the first time in the Commonwealth's history and fines have increased for those guilty of tax evasion.

- Improved taxpayer service has been given equal priority with enforcement. New and simpler tax forms have been developed. Help was provided to over 500,000 people in the last filing season, many of them reached by programs in their own communities.

- A pledge was made to those filing error-free forms by early March that refund checks would be mailed within four weeks. That commitment was met and 90% of all the 1.7 million refunds handled by the Department were sent out within twenty working days.

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The Revenue and Enforcement Record Over Four Years

	Fiscal Year	Amount	Increase Over Prior Year	FY 83-84 Increase Over FY 81-82
Total Tax Revenues	1984	$5.611 Billion	13.4%	$1.8 Billion
	1983	$4.948 Billion	7.6%	or
	1982	$4.598 Billion	10.6%	21%
	1981	$4.156 Billion		
Delinquent Tax Collections	1984	$167.8 Million	30.0%	$149 Million
	1983	$128.8 Million	71.0%	or
	1982	$ 75.5 Million	4.7%	101%
	1981	$ 72.2 Million		
Individual and Business Audits	1984	$147.8 Million	19.3%	$130 Million
	1983	$123.9 Million	63.7%	or
	1982	$ 75.7 Million	20.7%	92%
	1981	$ 66.3 Million		
Seizures	1984	91 Cases	168.0%	95 Cases
	1983	34 Cases	70%	or
	1982	20 Cases	100.0%	317%
	1981	10 Cases		
Criminal Referrals	1984	78 Cases	59.2%	29 Cases
	1983	49 Cases	22.5%	or
	1982	40 Cases	(37.5%)	30%
	1981	58 Cases		
Increased Voluntary Compliance	1984	$165.8 Million	Estimated additional revenue paid voluntarily by taxpayers who would not have filed or paid in full except for the stimulus of DOR's vigorous and visible enforcement efforts against other evaders and delinquents. This money is above the amount received under Amnesty.	